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AUSTRALASIAN INVESTMENT REVIEW

NEW YEAR, BETTER YEAR?

Jobs surge, Update surprises, Sovereign risk rising?

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#TWO HUNDRED AN SEVENTY SEVEN

11th December 2009

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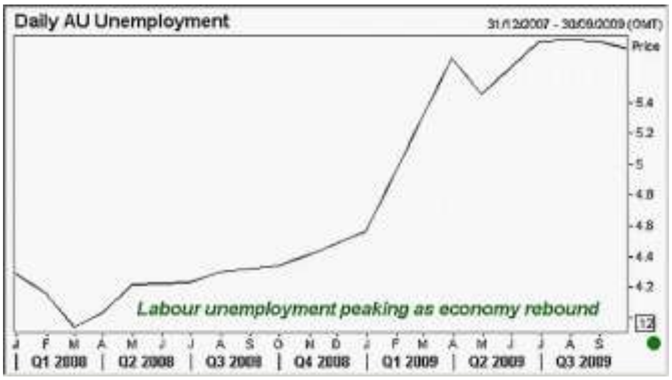
Editor's Message

A year ago who would have thought we would end up where we are now. Out of danger, the economy growing, our prospects looking better, unemployment easing, inflation under control and share prices up. Interest rate rises are merely a reflection of how well we are doing. 2010 is shaping as a year that could be better again, but we won't see another explosive rise in shares, or will we?

Labour Market Rebounding Quickly



As we close in on the end of 2009, the year that was almost the year from hell, a third month of solid employment growth has added to the flow of strongly positive data about the economy.

In fact we are ending the year in a far different position that in December 2008.

The fear and concern about banks, our finances, jobs so active a year ago, have vanished in Australia.

Not in the US, Japan and Europe, or the Middle East.

Instead of interest rates being cut, the 'fear' is now about rises and how far will they go.

(And ignoring the positive message that rising rates in this stage of a recovery send.)

No other economy can boast that huge change in mindset in such a dramatic 12 month period.

Jobs are being created, 100,000 in the past three months at the end of a year which was the toughest for two decades.

The unemployment rate in November 2008 was 4.5% and rising, last month it was 5.7% and falling.

Interest rates were chopped 1% in December 2008 to 4.5%. They are 3.75% after the third monthly rise in a row last week.

The Aussie dollar was trading around 65.70 US cents a year ago; yesterday it jumped sharply after the solid jobs numbers, to trade just under 91.50 US cents.

Retail sales are positive, car sales solid (thanks to tax rebates, meaning early 2010 could be weak), building approvals and housing finance also solid (thanks to the new home buyers scheme and the money spent on schools), the trade account is weak, but so is most of the world.

That's also to be expected given the unwinding of those huge price increases last year for iron ore and coal.

Business investment was down in the September quarter, but is expected spending is rising and could end up the highest on record by June next year.

Construction is still solid and the outlook is for better times as the LNG resources boom starts kicking in the new year.

So with just three weeks to go, there are winners everywhere, including the 100,000 people who have got jobs in the past three months.

But three groups stand out:

They are the Rudd Government for its heavy stimulus spending at the right time. All the critics and naysayers have been proven wrong.

The Reserve Bank for getting its monetary policy easings spot at the end of last year and early in 2009, and for its trio of rises from October through December, and the Australian economy.

And consumers and workers who have proved themselves to be far more flexible and accommodating than any critic had thought.

Australians adjusted quickly on the way down (but not without ripping out $10 billion in cash in the final quarter of 2008 as 'insurance'), put it back, responded to the stimulus, lifted their confidence levels, which then spread to business and surfed the emerging upturn to where 2010 looks like being a year of 'normality', except for the looming federal election and all the hot air (global warming!).

Unemployment could peak at current levels, and the improvement in jobs and faster economic growth will mean that the government debt burden created as part of the stimulus and the drop in revenue, will again be reduced when the budget figures are released next May.

In fact it could be quite possible that we could see that debt burden become negligible from 2011 onwards as more money flows into government tax coffers from higher earnings, higher employment and rising profits, while cuts to spending by Canberra add to the reduction.

Yesterday's jobs figures showed that another 31,000 jobs were created last month, 30,000 of those full-time, as the Australian economy charges out of the mid-year slump and positions itself for another surge in 2010.

The month before it was a lot of part-time work (in November just 300 were created, according to the ABS).

In September most of the thousands of jobs created were full-time.

To have two months in three were full-time employment rising strongly is a sign the economy's underlying strength is much better than seems from the mere figures.

The latest employment figures from the Australian Bureau of Statistics also show that the unemployment rate dipped back to 5.7% from 5.8% the previous month (the rate has steadied around this level since April).

Market forecasts have centered on just 5,000 new jobs and the rate edging up to 5.9%.

The ABS report had the rabbits in the markets punting on more rate rises in early 2010, as there will be if the strength in these figures continues.

After all, the Reserve Bank lifted rates in the belief the economy was strengthening.

As a result, the Australian dollar jumped by more than 1 US cent in the space of a few minutes to trade just under 91.50 US cents.

The strength in the labour market was also borne out by the rise in the number of hours worked, while the utilisation rate (a measure of underemployment) eased.

The number of people employed in November increased by 31,200 (0.3%) to 10.868 million, seasonally adjusted, the ABS reported. The rise in employment was driven by a rise in full-time employment, up 30,800 to 7.627 million.

The ABS said the seasonally adjusted number of people unemployed decreased by 13,300 in November, standing at 653,100.

The ABS seasonally adjusted monthly aggregate hours worked series showed a rise in November, up 13.4 million hours (0.9%) to 1,536.3 million hours.

The ABS said the participation rate in November was 65.2%, seasonally adjusted. The ABS seasonally adjusted labour force underutilisation rate was 13.5% in November, down 0.1% from August.

The figures hold out further hope that the peak unemployment rate will be much closer to 6% or perhaps a touch under than the range of 6.2% to 6.5% from private and government forecasters.

In fact the economy has created 100,000 jobs since August, according to these figures.

The ABS figures show that there were 10.768 million employed in August, compared with the 10.868 million last month.

Since November of last year, the number of people employed has risen by 70,000, and that is through one negative quarter for growth and two slow quarters (that we know of).

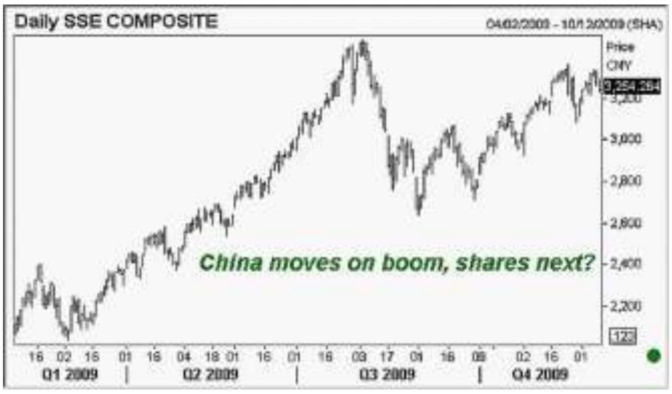
Victoria saw a sharp drop in its seasonally adjusted unemployment rate last month, to 5.4% from 5.7% the month before. NSW edged down to 6% from 6.1%.

But South Australia's job rate rose to 5.5% from 5.3%, while Queensland topped the nation with its 6.1% jobless rate, up from 6% in October.

Western Australia saw its rate rise to 5.2% from 5%. Tasmania's jobless rate remained at 5.4%.

All in all a much better finish to the year than 12 months earlier.

China Moves To Cool Economy



With November economic figures out later today expected to show further sold growth in the economy, China has acted to curb speculation in real estate and cool the booming car sector.

China's car sales jumped by more than 100% in November to 1.10 million, up 10.3% from November last year (when sales were falling sharply) and up 9.5% from October.

It was the first time the domestic monthly production and sales broke the 1 million unit barrier.

Total output of the sector hit 1.08 million units, 101% higher than that of November 2008.

That has seen steps to cool and redirect demand for new cars, and for attempts to quieten the booming property sector by the government's major policy implementation group.

The country's State Council, the most important body for implementing policy, has decided to scrap a tax break on property sales.

The State Council will re-impose a sales tax on homes sold within five years after cutting the period to two years in December-January, to help the weakened property sector.

That was after property prices in the 70 major urban areas fell in the year to December 2009 as the impact of the credit crunch and global recession rippled through China.

Now the central government will reduce some tax breaks for urban car buyers, while continuing to fund vehicle purchases in rural areas.

The move on property follows several months of rapidly rising prices, including a 3.9% rise in October from September.

Figures out yesterday showed property prices rose in November at the fastest rate for more than a year.

But it was the further acceleration in November, with a 5.7% jump from October that seems to have triggered the move by the government.

The government will also scale back preferential tax rates offered for purchases of vehicles with engines of 1.6 litres or smaller.

China in January cut the sales tax on the vehicles to 5% from 10%.

It also introduced the incentive to revive demand after auto sales rose at the slowest pace in a decade last year.

The rate will be 7.5% in 2010.

The tax cut had the desired impact.

In fact after the strong rise in November, China looks like selling (and producing) over 13 million vehicles in calendar 2009, the biggest ever and surpassing the depressed American industry.

China will also pick five cities for trials of subsidies designed to encourage individuals to buy alternative energy and energy-efficient cars, such as hybrids.

The State Council said the government will increase automobile trade-in subsidies to between 5,000 Yuan and 18,000 Yuan for these vehicle types, and extend subsidies for purchases of automobiles, household appliances and farming equipment in rural areas.

That follows statements from the Commerce Ministry two weeks ago which foreshadowed the move to boost consumption of whitegoods and other household appliances.

China will continue appliance trade-in subsidies beyond May next year when they had been expected to end.

Subsidies for motorcycle purchases will be extended to the end of January 2013.

The State Council decisions follow meetings of the government's annual economic planning group in Beijing this week.

The State Council made the point in Wednesday's statement that the government will endeavour to tap into the domestic market to boost consumption.

The statement said "China will continue to expand domestic consumption next year and especially to highlight consumption's role in boosting economic growth, as China's economy will still face many challenges next year, according to a statement on the Xinhua website.

"Policies to subsidize rural households to buy electric appliances will be continued next year and policies to subsidize rural households to buy automobiles will be prolonged to the end of next year.

"After home appliance replacement ended trial operation in May next year, the policies will be fully carried out and further promoted.

"Measures to subsidize agricultural equipment will be continued.

"Policies to reduce purchase tax on passenger cars will be continued but adjusted to 7.5 percent for models with engine displacements of less than 1.6 liters.

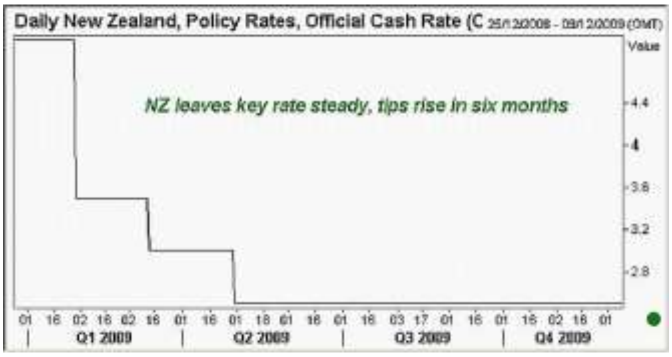
"The Chinese government is to raise the earnings of the middle and low income groups to boost consumer spending.

"The government will also raise the pensions for enterprise retirees and improve treatment for those who enjoy special care."

NZ Advances First Rate Rise

The New Zealand seems to be growing, so the country's central bank has decided it wants to board the interest rate rise express, but not quite yet.

Certainly, not as soon as Australia, with three rate rises in three months under the belt.



But instead of lifting rates, as signalled for the past few months, at the end of 2010, Governor Allan Bollard has advanced the timing to midway through next year.

“If the economy continues to recover, conditions may support beginning to remove monetary stimulus around the middle of 2010,” Reserve Bank Governor Bollard said in a statement yesterday after leaving the official cash rate unchanged at 2.5%.

"The New Zealand economy continues to recover, reflecting the positive impacts of an improved world outlook, higher export commodity prices and increased house prices," The RBNZ said in its latest monetary policy assessment, released yesterday.

"Domestically, we believe New Zealand has moved out of recession and estimate that the economy grew only slightly below trend through the second half of 2009.

"However, we continue to see little need to increase the OCR immediately, given tighter financial conditions brought about by appreciation in the New Zealand dollar, growing market expectations of an increase in the OCR and increasingly aggressive competition for deposits among financial institutions.

"Importantly, annual CPI inflation is forecast to remain inside the target range over the medium term.

"We expect growth to be relatively strong over the coming year or so, as activity regains its pre-recession."

But Dr Bollard said despite the improvement, "there remains considerable uncertainty about the durability of the expansion".

He said global activity has continued to rebound, "most obviously, in Australia, China and emerging Asia continues to increase and solid growth is expected over the next few years.

"The picture is more mixed in the major developed economies.

"While activity is expanding, sustained growth is not assured.

"Financial sectors are still impaired in a number of economies and economic activity is still heavily dependent on policy support."

He said the NZ economy continues to recover, reflecting improved world growth, higher export commodity prices, increased government spending and housing strength.

"A key uncertainty is the extent to which higher house prices are eventually reflected in increased consumer spending.

"At this point credit growth remains subdued suggesting households are being relatively cautious."

Business confidence has improved, but actual business spending remains weak.

But the high level of the New Zealand dollar (it jumped yesterday after the release of the statement on rates) has limited the scope for exports to contribute to the recovery.

"After some short-term correction the current account deficit is expected to widen in the future.

"Annual CPI inflation is expected to remain below 2 percent until early 2011 and track within the target range over the medium term.

"The economy is being assisted by both monetary and fiscal policy support.

"As growth becomes self sustaining, fiscal consolidation would help reduce the work that monetary policy might otherwise need to do.

"If the economy continues to recover, conditions may support beginning to remove monetary stimulus around the middle of 2010.

"Recent tightening in financial conditions, driven by a higher exchange rate, increased long-term interest rates and a wider gap between the OCR and bank funding costs, reduces the need for more immediate action."

In other words the strengthening in the value of the Kiwi dollar is acting as a monetary policy restraint.

That's what is supposed to be happening in Australia, but as we saw this week, the economy seems to be growing strongly, in spite of the rise in the value of the Aussie dollar (over 30% this year).

Watch Those Updates

On Tuesday we noted the earnings downgrade from Skilled Group (SKE) and warned to be on the look out for more warnings to surprise on the downside than the state of the market would have us believe.

Since then Caltex yesterday has warned of a weak start to the 2010 financial year while starting a $170 million cost cutting program.

Alesco Corporation, the building products group (see below) issued a warning as well about earnings for the current half, and yesterday Ten Network told us that the ad market was firming, but didn't give any update on earnings.

Ten is probably being ultra cautious, seeing the company has been through the wringer this year of slumping sales and earnings, write-downs, losses and ending the relationship with its Canadian parent.

So the reticence on forecasting earnings was probably understandable.

Executive chairman Nick Falloon told shareholders at the company's AGM the group was benefiting from its stronger 2009 ratings performance in renewal negotiations with key advertising buying groups.

"Network Ten has substantially completed its negotiations for 2010 with the major buying groups," he said yesterday. "These negotiations, coupled with our strong ratings performance in 2009, support our ongoing goal of achieving a 30 per cent share of revenue."

Ten shares closed down a cent at $1.53 yesterday.

Mr Falloon said there was a continued focus on cash flow management and cost control across the company.

"Television costs for the 2010 financial year will include a full year of ONE, which commenced in March 2009, the AFL Grand Final in the first quarter, and the return to a normalised level of sales and executive incentives," he said.

"On a normalised basis, we expect the increase in television costs (ex selling) in 2010 to be in line with CPI (consumer price index)."

He said Ten's board continues to review the company's dividend policy and will update shareholders on its decision with its fiscal 2010 first half results announcement.

But no figures. Ten, by the way, is reverting to interim and annual earnings reports instead of the quarterly statements it issued because it was 56% owned by Canwest which reported every quarter.

In October, Ten reported a 47.4% fall in normalised net profit to $47.17 million for the year ended August 31. Its statutory result was a net loss of $89.35 million and it did not pay a final dividend.

ALesco's warning this week wasn't the first from this company in the past 18 months, but this time it was a bit more surprising given there are positives for its major area of interest, building and construction.

But Alesco (ALS) warned that pre-tax earnings will drop 29% to just $30 million in the first half, thanks to the softness in the housing construction market.

The profit downgrade came three months after it told shareholders at the AGM that trading conditions had been subdued in the first quarter, but there had been an improvement in the second quarter.

“Trading in the second quarter of FY10 was significantly better than the first quarter with sales up by approximately 10%, quarter on quarter.

"In addition, EBITA more than doubled in the second quarter, reflecting the seasonality of the business, an improved contribution from the Water Products & Services division and the benefits from the appreciating Australian dollar," the company said.

Shares in the company fell almost 9% Wednesday or 43c, to $4.49 and were weak again yesterday, losing a further 6 cents to $4.43, to take the two day fall to more than 10%.

Alesco said earnings per share for the full year would be between 34c and 36c, well down on the market's expectations of 44.5c. Sixty per cent of its business is exposed to the housing construction and renovation markets.

The chief executive, Justin Ryan, said all divisions had felt the full impact of the global crisis.

Sales were down because of the weak housing markets in Australian and New Zealand.

Revenue from the company's continuing operations fell by 15% in the first half.

"Based on preliminary unaudited management accounts, Alesco’s 2010 half year earnings before interest, tax, amortisation and significant items is expected to be approximately $30 million, down approximately 29% from the prior corresponding period.

"This comparison excludes the contribution from the Scientific & Medical division, which was sold on 30 April 2009. Earnings per share before amortisation and significant items are expected to be approximately 16.5 cents."

Based on this FY10 first half performance, ongoing operational initiatives and forecast market conditions into the second half, the Board expects EPS for the full-year to be in the range of 34 to 36 cents.

Revenue from the continuing businesses for the first half of FY10 was down approximately 15% compared to the prior corresponding period.

"Margins were adversely impacted by lower volumes, pricing pressures and the volatility of the Australian dollar against the US dollar and Euro, particularly in the first quarter.

"The continuing benefits from cost reduction initiatives have reduced expenses by approximately 13% compared to the prior corresponding period."

But higher effective interest rates following refinancing of the group's borrowings in July 2009 and associated costs have resulted in financing costs of approximately $7.7million for the first-half.

"The group continues to generate strong cash flows with net debt reduced from $159.7 million to $138 million. Gearing (on a net debt to net debt plus book equity basis) at 30 November 2009 is expected to be approximately 20%.

"As foreshadowed at our annual general meeting in September, the first half of FY10 has seen difficult trading conditions," Mr Ryan said.

The full impact of the global financial crisis has been felt by the Alesco group during the 2009 calendar year across all divisions.

Sales were well down on the prior corresponding period, as the Australian and New Zealand housing and construction markets continued to soften.

But there were some good newspoints from the company.

Directors said that "Notably, trading results from the continuing businesses in the first half of FY10 were ahead of the second half FY09, with revenue up by approximately 7% and EBITA up by approximately 15%.

"Alesco's overall performance in FY10 will, in a large part, be driven by the timing and pace of the recovery in the new housing and renovations markets in calendar 2010 and the impact of government stimulus into the broader construction markets.

"There are encouraging signs of a market recovery with housing and loan approvals increasing and we expect to see this flow through to Alesco's revenue in the second half.

"However, activity levels in the broader construction and infrastructure markets remain subdued, with a significant decline in new private sector projects.

"Government stimulus spending will provide some buffer against this decline in activity.

"However, the benefits of this spending are not expected to flow through until later in calendar 2010.

"While the New Zealand housing market has been in significant decline over the past 18 months, we have begun to see a reversal of trend with a slight improvement in approval levels over the past few months."

2009 Has Gone, Now 2010

The AMP's Chief Economist, Dr Shane Oliver says this year has been a year of recovery, first in share markets and then in global economic activity, while 2010 is likely to see the economic recovery continue and become self sustaining. This will underpin gains in most growth oriented investments.

But he cautions that with uncertainties about the strength of the recovery lingering and key central banks moving towards monetary tightening in the year ahead, share markets will be more volatile and gains more constrained than has been the case since March.

At the start of 2009, fear of a complete financial meltdown was rife.

There was much doubt as to whether the massive and unrelenting stimulus and financial rescue efforts put in place around the world would work and many were talking off a re-run of the Great Depression.

As a result, share markets and other assets continued to plunge into March.

However, the key message from governments and central banks in most countries was that they would do whatever it takes to head off depression and push asset prices back up.

Budget deficits in some countries were pushed up to 10% of GDP and several central banks moved beyond near zero interest rates to embark on 'quantitative easing'.

And it worked!

Just when it seemed that all hope was lost, the gloom began to lift in March.

Shares bottomed, credit markets unseized, commodity prices started to rebound, bank losses started to recede and 'green shoots' of economic recovery started to pop up.

Talk of a dead cat bounce was common but, as the green shoots turned into saplings and the recovery in share markets continued, it became apparent the massive worldwide economic stimulus had traction.

But while growth has rebounded, underlying inflation pressures have continued to slide reflecting the massive amount of global spare capacity.

As always inflation is a lagging indicator.

Similarly unemployment and private sector credit are also lagging indicators.

Unemployment has increased to around 10% in the US and Europe, although there are signs that it is close to topping.

Perhaps the biggest surprise over the last year has been the Australian economy which has managed to avoid recession and a surge in unemployment despite widespread fears to the contrary.

Australia is about the only advanced country to have had positive GDP growth over the last year.

Thanks to solid export demand, a sounder financial system and rapid and massive economic stimulus, Australia has yet again proved itself to be the 'lucky country'.

Reflecting this, the RBA has been one of the first central banks to start raising interest rates.

Reflecting the growth rebound, listed growth assets have rebounded in value, as shown in the following table.

Investment returns for major asset classes

Total return, %	2008 actual	2009* actual	2010 forecast
Global shares (in Aust dollars)	-24.9	-3.8	-1.0
Global shares (in local currency)	-38.8	20.9	12.0
Asian shares (in local currency)	-46.6	57.0	23.0
Emerging mkt shares (local currency)	-47.2	55.8	23.0
Australian shares	-38.4	32.1	17.0
Commodities (in $US)	-34.5	36.3	20.0
Global bonds (hedged into $A)	9.4	8.7	4.5
Australian bonds	15.0	2.1	4.5
Global listed property securities	-45.0	20.6	15.0
Listed property trusts	-54.0	4.4	20.0
Unlisted non-res property	-0.3	-8.3	9.0
Aust residential property, estimate	-5.6	10.6*	6.5
Cash	7.6	3.1	4.5
Avg balanced super funds	**-22.0**	**14.8***	**11.0**

*Yr to date to Nov. Source: Datastream,Intech,REIA, AMP Capital Investors

- The key winners over the last year have been Asian and emerging markets generally (with gains of around 55%), commodity prices (with metal prices up 80% and gold up 30%), Australian shares and corporate debt.

- Global shares have increased in local currency terms but for Australian investors the gains have been wiped out by a sharp rise in the value of the Australian dollar.

- Cash and government bonds have been poor performers with the latter dragged down by a rise in yields from low levels as fears have subsided.

- After holding up reasonably well in 2008, unlisted property returns fell sharply in lagged response to credit problems and the collapse in share markets.

By contrast, Australian housing saw positive returns in response to the first home owners boost, the earlier collapse in mortgage rates and the boost to confidence.

As shares are the dominant investment in most super funds, this all translated into a recovery for investors.

The key lessons of the last year were that counter cyclical macro economic policy measures do work, that just as the cycle goes down it also goes up and that markets always bottom just at the point of maximum gloom.

Outlook for 2010

In direct contrast to the doom and gloom of a year ago, the outlook for 2010 is reasonably bright.

Sure, the aftershocks from the global financial crisis – such as high unemployment, periodic debt blow-ups (Dubai, Greece, etc) and constrained bank lending – will linger.

But as 2010 progresses, the global recovery is likely to become increasingly self sustaining.

In this regard the key themes of relevance for investors for 2010 are likely to be:

1. **Self sustaining economic recovery**. Leading economic indicators point to continued growth over the year ahead.

But most importantly, signs that labour markets are starting to turn the corner – notably in the US – suggest the recovery is on its way to becoming self sustaining.

In other words, fiscal and monetary policy has primed the pump and the private sector will now take over.

2010 is likely to see global growth of around 4% (up from -0.8% in 2009, which primarily reflects the late 2008/early 2009 slump).

2. **Stronger growth in the** emerging world. Thanks to stronger domestic demand and less in the way of structural constraints such as debt and demographics, growth in the emerging world is likely to be 7% compared to around 2.5% in advanced countries in 2010.

China is likely to grow by 10%, India by 8% and Brazil by 6%.

3. **Benign inflation**. Inflation lags economic activity because it reflects capacity utilisation which is below normal well into an economic recovery.

This time is no different except that excess capacity is greater than normal with the result underlying inflation is likely to continue to fall in the year ahead.

4. **A gradual move** to wind back the stimulus. Along with economic recovery there will eventually be pressure to wind back budget deficits and raise interest rates.

Talk of higher interest rates and uncertainty about how aggressive the wind back will be will no doubt fuel occasional corrections in asset markets in the year ahead.

Particularly in those that have benefitted the most from low US interest rates, viz, emerging markets, commodities and commodity currencies – much as occurred in 2004 when the Fed last moved to tighten.

However, tightening will be a very slow process in advanced countries given memories of premature tightening in the US in the 1930s, still very high unemployment and falling underlying inflation.

Global central banks will first move to unwind the liquidity stimulus before then starting to raise interest rates during the second half.

Interest rates will still be very low by the end of 2010 – maybe around 1.5% in the US. China is likely to move a bit more aggressively to tighten, but it is not as dependent on stimulus measures.

5. **Earnings recovery**. As economic recovery becomes entrenched, earnings growth will return and take over as the key driver of share market gains.

Profit growth is likely to be of the order of 20% in the US and Australia, and 30% or more in emerging countries.

6. **Australian economic growth** to rebound but underlying inflation to slow. The rebound in business and consumer confidence, a housing construction recovery, numerous mining projects and increased public infrastructure spending are expected to underpin GDP growth of around 4% though 2010.

This is likely to see unemployment head back down to around 5.5% by year end. Inflation is likely to be 2.5% thanks to a combination of global excess capacity and the impact of the strong Australian dollar.

While the RBA will continue to raise the cash rate the process is likely to be gradual, taking it to around 4.75% to 5% by year end with low inflation and additional increases in bank lending rates stopping a more aggressive rise.

Looking at the major asset classes for the year ahead:

Share markets are likely to rise further thanks to the combination of improving economic and profit growth, low inflation and still low interest rates at time when there is still plenty of cash on the sideline.

However, shares are moving from a multiple driven phase to an earnings driven phase and this, along with moves towards higher interest rates, will likely result in more volatile and constrained gains than has been the case since March.

The Australian ASX 200 and All Ords indices are expected to rise to around 5600 by end 2010 and we see Australian shares continuing to outperform traditional global shares, reflecting their higher dividend yields and stronger growth prospects.

- **Asian and emerging** markets are likely to remain out performers reflecting better growth prospects, but the ride will be more volatile.

- **Commodity prices** and the $A are likely to remain solid off the back of the economic recovery with the $A breaching parity, but expect occasional sharp corrections when the Fed moves towards tightening.

- **Cash remains unattractive** reflecting low interest rates. Cash returns are likely to be around 4.5%.

- **Government bond yields** are likely to push higher later in the year as monetary tightening starts to be factored in.

  Corporate debt is far more attractive with yields of 7.5% or more.

- **Unlisted non-residential** property is likely to see positive returns on the back of yields around 7% and modest capital growth thanks to more favourable space demand/supply fundamentals, less selling pressure and increased investor demand.

- **Average house price** gains are likely to slow as mortgage rates rise and the first home owners boost comes to an end.

  A stronger labour market will provide some support though. Overall expect average house price gains of around 5%.

Our return expectations imply that most super funds should see continued gains through 2010.

US consumers and premature tightening the main risks

The two big risks are that US consumers return to cutting spending and paying down debt and/or that policy makers start tightening too aggressively too early.

A stronger labour market though should help US consumers.

It also seems that policy makers are keen to avoid a re-run of Japan in the 1990s and the US in the 1930s when policy was tightened too aggressively.

China is also worth watching.

Conclusion

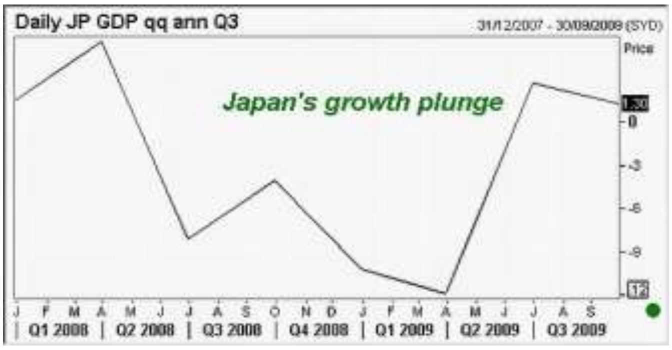
The last year has told us that just as the investment cycle goes down, it also goes up.

Right now it is still early days in the upswing and so growth assets like shares are likely to continue to do well over the year ahead.

Japan's GDP: Now That's A Cut!

We learned yesterday just why the Japanese government is trying to get a stimulus package up for the third or fourth time, and why one its key allies is arguing to make it as big as possible.

Figures showing a sharp slowing in the reported rate of growth were released by the government and they shocked on the downside.



As a result there is a very real chance the Japanese economy could be sliding back into the red this quarter or in early 2010.

This could bad news for a host of Australian companies large and small. Japan is a major export destination, and a source of tourists, although the slump has seen numbers fall in the past two years.

Japan's Cabinet Office said real gross domestic product grew 0.3% during the July-September quarter, less than the 1.2% reported in the preliminary reading last month.

On an annualised basis, the world's second-largest economy grew by a revised 1.3%, down from an initial reading of 4.8%, well under the seemingly pessimistic market forecast for a 2.7% rise.

The report also revealed that the deflationary forces seen since February, are taking hold in the economy.

In nominal terms the economy shrank 0.9%, compared with the government's initial prediction for a 0.1%.

That put nominal GDP under where it was back in 1992!

So much for economic growth in Japan.

The GDP deflator, the broadest indicator of price falls, slid 0.5% in the quarter: it has only risen twice in the past decade.

Falling business investment by the corporate sector drove the downward revision in last quarter's growth.

MODEL PORTFOLIOS

1 **The Fat Prophets Mining and Resources Model Portfolio**, a diversified portfolio of large and small companies listed on the Australian Stock Exchange with operations in an array of sectors such as mining, metals and commodities.

2 **The Fat Prophets Concentrated Australian Share Model Portfolio**, which is designed for investors seeking a focused basket of up to 30 stocks with a medium to long-term investment horizon.

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Capital spending fell 2.8% in the three months through September from the previous quarter. That compares with the 1.6% increase reported last month.

That is quite a revision and a sign of the malaise that still grips the economy.

Business investment matters in Japan because it links into the export sector, which remains the only bright spot in the economy and a major driver of activity.

Consumption is not as important as in the US or Australia.

The cuts in both quarterly and annualized growth were the biggest since the survey was introduced in 2002, the government said.

The revision follows a similar cut for GDP in the fiscal year ended March, to a contraction of 3.5% from a preliminary reported fall of 3.2%.

The bad economic news has prompted plans for fresh economic stimulus, with the government on Tuesday unveiling 7.2 trillion yen ($US80.6 billion) in new spending.

That was more than double the original $US31 billion size of the package.

The IMF and other forecasters say the Japanese economy will contract by more than 5% in calendar 2009, more than the 4%-plus fall expected in the euro area and a 2.7% shrinking in the US.

Japan's exports have led the recovery, dragging industrial production and some other parts of the economy higher.

Exports had their best performance in a year in October, thanks to the strong spending and rebound in China and the impact of car scrapping plans around the world, which has helped the country's important car sector recover (and boosted steel output as well).

But imports remain weak, thanks to low demand and falling prices from the strong yen, and lower contract prices.

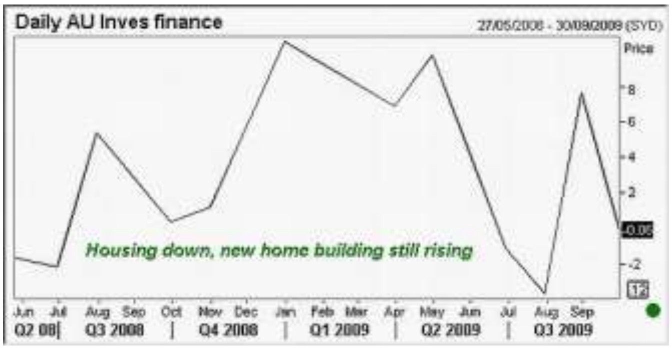
That helped the trade surplus rise 42% from a year earlier to 1.4 trillion yen or $US15 billion.

Despite the export performance, industrial production slowed to its lowest rate of growth in eight months in October (and is more than 15% down on a year ago).

Wages fell for a 17th month, consumer prices fell a near-record 2.2% (and down 1.1% on a core, non-food, non energy basis).

But unemployment fell to 5.1%, to continue the recent improvement in October.

First Home Building Boom Continues



The real story from the housing finance stats yesterday was that the new home building boom is alive and growing and will continue going well into 2010.

Housing finance figures for October, released yesterday by the Australian Bureau of Statistics showed a 1.4% fall in the seasonally adjusted value of dwelling finance commitments excluding alterations and additions.

That made it sound like another dull month where nothing happened, especially as it was down from the reported 4.8% rise in September.

But the reality is that over $1 billion a month more is being lent for housing this year than a year ago, and much of that is going into building new homes.

And that was the reality found in the figures where new home building boom is soaring.

"The seasonally adjusted series rose 9.2% to 8,016, the highest level since August 1994," the ABS said.

That's actually up on the 8.0% growth rate in September from August.

Looking at the figures another way, from October 2008 to October of this year, the number of new home building contracts financed more than doubled, to 8,016 from 3,951.

The value soared 92% from $987 million in October of last year to $1.894 billion in October 2009, the highest for monthly value for years.

The ABS said that "In original terms, the number of first home buyer commitments as a percentage of total owner occupied housing finance commitments fell slightly, decreasing from 26.1% in September 2009 to 26.0% in October 2009.

"In original terms, the number of fixed rate loan commitments as a percentage of total owner occupied housing finance commitments decreased from 5.6% in September 2009 to 4.7% in October 2009."

The ABS said the number of new home purchases financed fell 3.9%, as did the number of existing home purchases, down 2.8%. The number and value of new homes purchased and existing homes rose over the 12 months to October, but at a more sedate rate than the soaring value and number of new home building loans.

"The number of finance commitments for the construction of dwellings for owner occupation (trend) rose 3.9% in October 2009 compared with September 2009, following an increase of 4.3% in September 2009," the ABS said.

So in trend terms, the boom in new homes continues, matching the seasonally adjusted rise.

It's no wonder the likes of Westpac, the CBA and the ANZ are boosting home loan mortgage rates by more than the Reserve Bank's latest 0.25%.

They, along with the NAB (which only went up 0.25%), are doing very nicely thank you from financing these first home buyers, and also buyers of existing homes, which continue to tick over.

As the RBA credit figures for October showed, home loan lending hit an annual rate of 10% in the year to October, the best for over a year and something the likes of Westpac and their fellow bankers don't tell you in their defensive comments.

Home lending for owner occupiers is the fastest growing area of bank lending and has been for months. The banks are making hay in this area.

The reality is that the action in housing is in first home buyers sector, thanks to the federal government's increased grants (supported by the states), announced 13 months ago, stimulating demand for new homes building.

Many building sector companies (such as Boral and Brickworks) are reporting solid growth in demand for their products from the federal government's schools program, with demand beginning to be felt from new home building.

Next year will be when new home building replaces demand from the schools program.

Confidence Still Strong

Australian consumers would seem to be a bit less confident than business, but that is all to do with the timing of the two main surveys.

The results of the latest Westpac/Melbourne Institute survey of consumer sentiment, released yesterday, showed a fall in the latest index of sentiment, while the NAB survey, released Tuesday, showed business confidence hitting a seven year high last month.

The three interest rate rises from the Reserve Bank were blamed for the fall in consumer confidence levels.

Westpac, along with the Melbourne Institute, run the index of consumer sentiment which fell 3.8% fall to a still solid 113.8 points in December, from 118.3 points in November.

Despite the second monthly drop, the index remains 23.7% up from a year ago.

The difference with the NAB survey of business was that it was conducted in November before the third rate rise from the December 1 Reserve Bank board meeting, while the consumer sentiment survey was taken from November 30, the day before the rate rise decision, to December 6, well after Westpac, and then two days later, the ANZ and CBA lifted their housing rates.

That meant it also included the period of criticism and intense public comment about the move by Westpac to lift its standard variable home loan rate by 0.45%, compared with the RBA increase of 0.25%.

Higher than the RBA rate rises were also announced on Friday by the CBA and ANZ, while the NAB increased its rate by 0.25% (and appears to some consumers not to have moved rates at all, such as has been the concentration on Westpac).

So while the RBA's third rate rise probably had an impact on confidence, it can be argued that Westpac had a substantial negative impact as well with its big rate rise.

But Westpac chief economist Bill Evans said in a statement that the fall in the index was "surprisingly modest" following the recent rate rises.

"We expected that there was a real possibility that the index would fall much more sharply than the 3.8 per cent which it has registered," Mr Evans said in a statement this morning.

"Note that after the RBA tightened by 25 basis points in March 2005 the variable mortgage rate was increased to 7.3 per cent from 7.05 per cent and the index fell by a massive 15.5 per cent.

"Each subsequent increase in mortgage rates over the course of 2006 and 2007 generally saw "double digit" falls in the index."

Mr Evans said households were holding greater debt relative to their incomes and higher interest rates would have a greater impact.

"A closer inspection of the components of the index shows that those folks holding a mortgage have responded much more negatively to the rate increases than those who are not holding a mortgage," he said.

"Confidence amongst those with a mortgage fell by 8.9 per cent while confidence of those who are renting actually increased by 1.6 per cent while those wholly owning their homes registered a fall of 4.1 per cent."

"We have little doubt that we are nearing a point where the level of the variable mortgage rate will start to elicit a much more negative response across all households but the evidence from this survey is that we are not there yet," he said.

After the solid ANZ job ads report on Monday, the still robust levels of business confidence and business conditions, today's employment figures and unemployment rate from the Australian Bureau of Statistics will tell us a lot about how the economy is finishing 2009.

What’s Caltex Really Saying?

Less than a week after the competition regulator refused to approve its application to buy 300 service stations from Mobil, including 53 key sites, Caltex Australia yesterday revealed plans to close a small part of its Sydney refinery and warned of a weak first half for next year and raised the possibility of another dividend omission.

Caltex shares fell 4.1% as a result, ending at $8.64, a loss of 37 cents on the day. That was after falling to a low of $8.44 on the day.

Caltex said it expected full-year 2009 operating profit on replacement cost basis, including items, of $180-205 million, compared with $186 million last year.

Even the 2009 estimate was spun: it's after the $170 million cost of closing the small refinery in Sydney and associated costs.

Profit comparisons should be before significant or one off items that are not related trading.

Add it back in and Caltex's own replacement cost profit is $350 to $370 million, before tax.

That's Caltex's own version of its profit, based on the so-called replacement cost of its inputs.

But that's its own invention. Companies operate on historic cost in the real world, and Caltex's earnings this year will be up, substantially.

The company said on an historic cost basis, after tax profit for 2009 would be in the range of $425 million - $455 million; or $305 million - $335 million after significant items.

The replacement cost profits this year before tax and before the restructuring costs will also be up strongly from last year, but the company didn't highlight that in its commentary.

Comparing the two profits, the company is trying hard to spin the line that it's under pressure.

"Global refiner margins remained under pressure in the second half of 2009 because of depressed demand and the expected growth in global surplus refinery capacity," Caltex said in a statement to the ASX.

Excluding items, Caltex expects full-year replacement cost basis profit of $300-325 million.

Caltex said it would shut down a lubricating oil refinery in Sydney as the plant produces outmoded lubricant products.

The closure will result in a one-off charge of $170 million.

Caltex's refinery margins were also impacted by a higher Australian dollar and firmer crude oil prices.

Refinery margins fell more than 71% in the second half to $US2.60 a barrel, which is understandable given the speedy fall, then rebound in oil prices in the past year, and the impact of the 31% rise in the value of the Aussie dollar so far this year.

Caltex said it was still considering what action it will take over the ACCC's decision on the Mobil service stations deal and was still in talks with the regulator.

Caltex said it will decide whether to pay a final dividend, depending on the outcome of those talks. The interim dividend was omitted to conserve cash for the Mobil deal.

In yesterday's statement, Caltex gave no sign of a company under pressure:

"Operational performance across the business remained strong, with no significant unplanned refinery shutdowns during 2009 and, despite the prevailing economic conditions, marketing volumes were maintained in line with 2008.

"The production of high value transport fuels is expected to be around 10 billion litres for the full year 2009.

"As foreshadowed in the half year release on 28 August 2009, the favourable key externalities that were seen in the first half were not repeated in the second half.

"Global refiner margins remained under pressure in the second half of 2009 because of depressed demand and the expected growth in global surplus refinery capacity.

"The higher Australian dollar and higher crude oil prices further moderated the Caltex Refiner Margin.

"The Caltex Refiner Margin has fallen to an average of about US$2.6 a barrel in the second half, compared with an average of US$9.0 in the first half of 2009."

The statement talked about a "Cost efficiency drive":

"Caltex has embarked on a significant cost and efficiency drive in its base business. This drive will deliver major benefits over the next three years.

"Caltex has recognised significant items totalling approximately $170 million (before tax).

"This includes $93 million (before tax) representing amounts for asset impairment and redundancies relating to the planned closure of the Caltex Lubricating Oil Refinery (CLOR) at Kurnell in Sydney.

"CLOR is not viable going forward due to the fact that the plant manufactures outmoded lubricant products and faces declining feedstock sources.

"A decision has been made to close CLOR with further detailed work to be done to determine a precise date for closure," the company said.

Trade Deficit Still Growing

Yesterday we reported on how the worsening in our balance of payments for the September quarter was going to hurt third quarter growth figures.

Part of the reason for the slump was the impact of lower coal and iron ore prices on exports of our most important contracts.

Then we got confirmation that this worsening trend had continued into October with the release of the trade figures showing a widening in the deficit in the month.

This is a trend that will be with us to around April-June next year simply on a comparative basis.

A year ago Australia was enjoying the record prices for iron ore and coal exports and the dying echoes of the high prices for oil and gas exports.

Those record prices continued until March 31 this year and into April and May for delayed shipments carried over.

All those record prices have now gone, gas and oil exports remain subdued in volume and lower in price and coal is not as buoyant. Only iron ore is doing better than a year ago as world steel production improves, led by China.

As a result our trade deficit widened in October as exports of coal and iron ore fell.

The shortfall jumped to $2.38 billion, up more than half a billion dollars in a month from the revised $1.85 billion in September, the Australian Bureau of Statistics said.

Clipping returns is the sharp, 30% rise in the value of the Australian dollar since the start of this year.

Exports are being hampered by the Australian currency's 31% surge against the US dollar this year, reducing earnings for companies such as BHP Billiton and Rio Tinto Group that sell iron ore to China.

Exports fell 3% to $19.5 billion in October, as coal shipments dropped 12% and iron ore 8%.

Imports were down by 1% to $21.8 billion, led by a 10% drop in fuel shipments.

The ABS said that in original terms, the metallurgical (coking) coal exports fell $345 million, or 24%, with volumes down 12% and prices down 14%. In the metals and ores category, "in original terms, non-agglomerated iron ore fell $193m (8%), with volumes up 1% and prices down 9%".

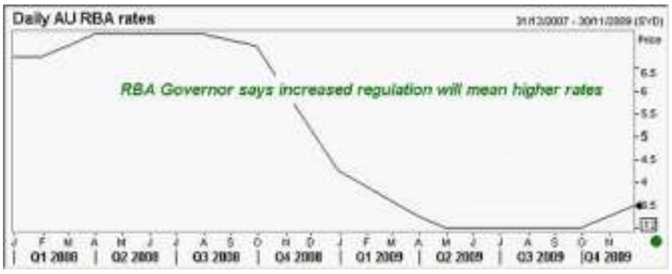
"Partly offsetting these decreases was the other mineral fuels component, up $217m (18%). In both original terms and seasonally adjusted terms, non-monetary gold fell $235m (17%) to $1,139m," the ABS said.

Among imports, the notable changes was a $58 million, or 12%, fall in the "household electrical items component", according to the ABS. Coming 10 weeks before Christmas that is a small, but intriguing fall.

Perhaps retail sales of small electrical products won't be as strong this Christmas.

"In original terms the fall in the fuels and lubricants component was driven by crude petroleum, down $175m (17%) with volumes down 11% and prices down 7%. Refined petroleum oils were down $75m (7%) with prices down 7%," the ABS said.

RBA Governor Warns; Bank Safety Will Cost More



Reserve Bank Governor, Glenn Stevens has warned that keeping interest rates too low doesn't help regulate banking activity.

He said in Sydney last night that Australia's experience of booms and busts shows that trying to regulate bank lending when rates are too low is unlikely to work.

"But as those with any recollection of Australian experience of the 1960s and 1970s will know, if the fundamental problem is actually that financial conditions are just too easy – that is, interest rates are too low – balance sheet regulation won't ultimately constrain credit growth.

He said that bank customers and shareholders will pay for the increased regulation and safety through higher margins on loans and lower dividends.

Stevens told the annual dinner of the Australian Business Economists annual forecasting conference that "A possible outcome is that, the harder we regulate a set of institutions as a result of the last crisis, the more likely it becomes that the next crisis occurs in the hitherto unregulated part, perhaps even among institutions that do not yet exist," he said.

"If the conditions are such that people want to take risk and gear up, they will find a way."

His comments have extra force because Australia is the only economy where interest rates have been raised three times this year as the central bank prepares to return monetary policy back to a normal footing and away from the emergency setting of the cash rate of 3%.

With the Fed maintaining its rates at 0% to 0.25%, the Bank of Japan at 0.1% and the Bank Of England at 0.50% and the European Central Bank at 1%, his comments have a special resonance.

The biggest problems in the credit crunch among the banks were to be found in those economies, especially the US and the UK, and to a lesser extent in Europe.

"The most egregious behaviour was mainly that of 30 to 40 large, globally active banks, none Australian" Mr Stevens said.

"They have imposed very large costs on their own banking systems, economies and taxpayers, and on the global economy.

"But there are thousands of other banks in the world whose risk appetite did not get out of control, that have remained solvent, and that have not needed public capital injections.

"So it will be sensible to ensure, as far as we can, that the proposed measures act effectively to constrain the worst excesses of the former without unnecessarily shackling the latter."

He said it will "take a great deal of determination on the part of regulators to enforce arrangements adequately in future booms," Stevens said, referring to global efforts to limit the emergence of lenders that are "too big to fail" and reduce risk in the financial system.

"Ultimately, the cycle of greed and fear itself cannot be regulated away," the Reserve Bank governor said.

"To assume that unrealistic optimism will not again, at some point, overwhelm the sober instincts of investors, bankers and commentators and others would be a triumph of hope over experience."

"In the crisis itself, the too-big-to-fail issue presented simply as an imperative for a number of governments to prevent failures.

"But as the crisis recedes, and the global financial system is gradually nursed back to health, it is this issue that is going to leave the biggest lingering challenge.

"The Financial Stability Board will be directing particular attention to it over the coming year.

"It is not likely to be amenable to simple solutions, or easy ones.

"In the mean time, enormous moral hazard, perhaps greater than ever before, exists in the global financial system as a result of the actions – albeit essential ones in the circumstances – of 2008.

But he warned that global proposals to toughen regulations, including increased capital requirements and liquidity rules, may drive up the cost of banking, Stevens said.

“Customers of financial institutions -- depositors and borrowers -- will also pay via higher spreads between what lenders pay for funds and what they charge for loans,” he warned.

"That is, they will pay more ex ante (before) to use a safer financial system, as opposed to taxpayers having to pay large costs ex post (after) to re-capitalise a riskier system that runs into trouble."

But there was more confidence than there was a year ago when he spoke at the same dinner.

“As 2009 draws to a close, things in the global financial system look much less worrying than they did a year ago.”

“With the sense of immediate crisis much reduced, regulators can devote more focus to the job of designing and implementing changes to regulatory frameworks."

NAB Says Economy Continues To Grow

The National Australia Bank has nudged up its growth forecasts for the Australian economy for this year and 2010, and trimmed its expected unemployment peak after what it called another strong month for business confidence and conditions.

The bank reported today that its monthly business survey had revealed that confidence rose 3 to +19 points in November, and while business conditions eased, most of the gains in October had been retained.

The monthly survey of over 400 firms from the NAB showed its measure of business hit the highest since May 2002.

That improvement came even though the Reserve Bank of Australia raised interest rates for a second time early in the month and justifies the central bank's confidence in the economy.

The NAB's survey results confirm what appeared in the October survey, that the rebound in the economy was widening and not solely driven by stimulus spending from Canberra and low interest rates (although both still had big influences).

In fact there's no sign of the rate rises in October and November having an impact, despite claims from some sectors that that would happen.

The survey results also came a day after the ANZ job ads report showed a strong rise last month, confirming the feeling that the jobs market is starting to grow, even if it is mainly in part time work.

The NAB survey is watched by the Reserve Bank, especially its comments on capacity utilisation and demand.

With Governor, Glenn Stevens, the key speaker at last night's Australian Business Economists forecasting dinner in Sydney, the NAB report will buttress those who expect more rate rises early in 2010, as the NAB does because of the underlying strength of the recovery.

"The continuous climb in confidence is remarkable with the level of confidence now the highest since May 2002," the NAB said yesterday in commentary with the survey.

"In November, confidence improved significantly in mining, retail (in part car related reflecting government stimulus measures) and transport. But weakened in construction (from very high levels) and wholesaling," the bank said.

While business conditions fell 2 points to +10 (following the 9 point jump last month), the NAB said trading conditions were unchanged at +15 points while profits were down 2 to +11 points, and employment fell 5 to a still positive reading of +2 (only the second positive since mid 2008).

"Business conditions were quite mixed with large falls in mining, manufacturing, transport finance and personal and recreational services. Construction activity was broadly unchanged but retail and (especially) wholesale conditions strengthened markedly," the NAB said.

As a result of the "continuing strength of the Survey – especially for business conditions", the NAB lifted its growth forecasts for 2009 and 2010.

"While the public sector looks to be making a large contribution to growth in Q3 it is also clear that business is stepping up capacity utilisation and production in the face of ongoing strength in demand. Also the phase of de-stocking and labour shedding has passed.

"The Survey very much points to these processes continuing into Q4 – and new strength in the retail sector. With high levels of confidence, activity and forward orders we now expect GDP to increase by around 0.5% in Q4 (on the back of our current forecast of 0.9% in Q3)

"That means GDP in 2009 is now expected to be around +1.25% (+1% previously). For 2010 we still see accelerating growth during the year (that is from Dec 2009 to Dec 2010) of nearly 3%.

"However given the higher base that raises the year average 2010 forecast to 2.75% (2.5% previously) and the 2009/2010 financial year forecasts to 2.25% (1.75% previously).

Idiots Guide to Building An Australian Equity Portfolio—introduction

From the series of 10 articles by Marcus Padley of Marcus Today - We hope this extract will give you a feel for the philosophy behind Marcus Today. To find out what else we have to offer, start a free trial.

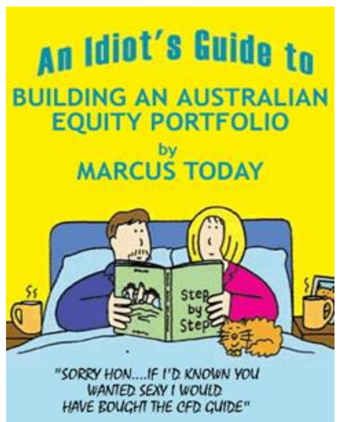
Building a portfolio in Australia is not rocket science.

When I first came over here in 1994 two things struck me about the stock-market. The "Gift of Franking" (it is not normal) and the predominance of monopoly stocks and, amazingly enough, because monopoly stocks have limited room for expansion, they are often the ones paying the big fully franked yields as well.

I couldn't believe your luck.

I have written an idiots guide (Ten Steps) to building a plain vanilla Australian equity portfolio. It involves a heavy dose of Monopoly stocks, but rather than list them all straight off, there are a few steps you need to go through first.

It is not a "Buy this at this price and look at my fantastic track record" type series but a guide to navigating the stockmarket, not



killing yourself and growing your money without having to punt and without (hopefully) losing any money.

For a sneak preview, see *Step 1—Should you be in the market,* on the following page.

How to get the full series

To get the full series of articles, you need to be a subscriber to Marcus Today. Before you make that leap, you can try out everything else we offer through our free trial.

Take a free trial to see what else is on offer from Marcus Today. If you decide to subscribe, your subscription will include access to the full series of articles on building your equity portfolio.

What is Marcus Today

- ⇒ An online newsletter covering the Australian Stockmarket - choose from a daily or monthly newsletter.
- ⇒ A Daily Email from Marcus, with his take on the market, what's happened, & what it means.
- ⇒ The Idiots Guide to building your own Portfolio - 10 steps & 20 stocks to a 'safe' investment portfolio.
- ⇒ Articles by Marcus on investing, the psychology of the herd, & the importance of peace of mind.

The 10 Steps in Summary

Step 1 – Should you be in the market?

Step 2 – Equities or Property?

Step 3 – Do you do it yourself of not?

Step 4 – If not you, then who?

Step 5 – Portfolio Construction – what to think about

Step 6 – Portfolio Construction Cont. – Monopoly Stocks & Franking

Step 7 - The Method

Step 8 – The 1st 8 Stocks

Step 9 – The next 5 Stocks

Step 10 – A reasonably magnificent 7

Idiots Guide to Building An Australian Equity Portfolio

STEP 1 -Should you be in the market?

The stockmarket is for investors. People with money to invest. People who are looking after their (excess) money.

Of course most people don't have enough money, they are behind the eight ball in life and the stockmarket is a tool for them to make more money than they would in their jobs or by paying off the mortgage.

But to get any leverage to the market you will have to borrow money. Sometimes it doesn't feel like borrowing because borrowing is second nature to us all now. That redraw facility isn't borrowing after all. Is it? But if you have a mortgage and a stock portfolio at the same time I hope you are netting off your extra interest costs against your portfolio returns and relating that to the risk you are taking.

Gambling with other people's money (its not yours) is high risk because you have heightened leverage to the downside as well as the upside. It only works when the stockmarket goes up.

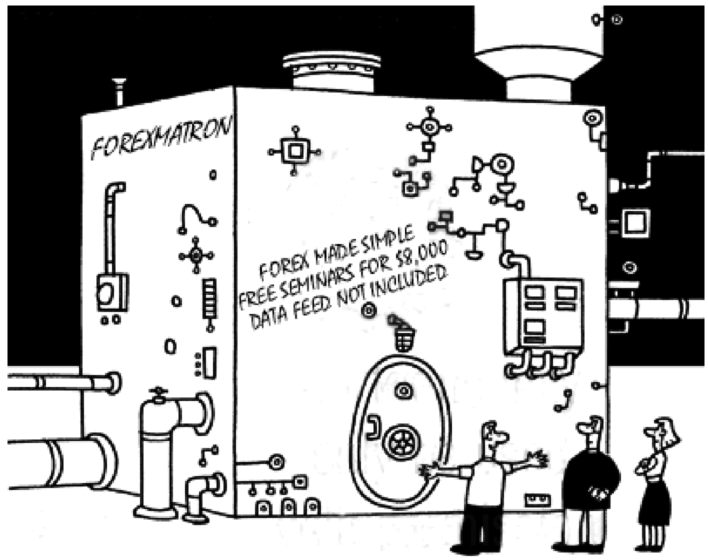
The best long term investment of all is in your own business, your own career, your own development, your own intellect. Far better you invest in that than any equity investment. Don't let your core asset development go by the wayside just because the stockmarket is easy money.

Might just drop in here **the distinction between investment and punting**.

You all know it but you may not know this. Over many years of stockbroking I can tell you that the attrition rate on clients punting (rather than hedging) in Futures, Forex and CFDs is very high. Vastly higher than equities and vastly higher than equity portfolio investors. Clients constantly have to put up more money. Dealers constantly have to replenish their client base. They are great products for the tiny tiny minority that consistently gets it right and for the brokers taking commissions on high turnover hopefuls, but there is little science and a lot of luck for Joe Blow.

The plethora of simple trading systems belies a truth that this is not for amateurs. The currency markets exist for a commercial purpose, if you really think you can take on the professional Forex market and come out a winner you are simply kidding yourself. That stake money will disappear as surely as your TAB credit balance. It's the truth.

There is a saying - "What's the difference between a professional trader and a beginner" - Answer - "Two weeks" or less if you pay more.



"THE FOREXMATRON IS PERFECT FOR MUMS AND DADS"

There are some financial website trading system Ads at the moment saying things like "Make the next few minutes count"......yeah right. Just how weak do you have to be to fall for that short term crap.

Its easy to kid yourself, and its easy to spend large sums of money on what looks like an instant solution, a trading system, a course. But in my experience....if these courses pass the quality test (and many many don't - otherwise why are they selling them and not trading) then they require a lot (A LOT) of after course attention and experience before they pay off. Meanwhile you have a job to do, a family to attend to and a life to lead. If a lack of attention to the work that needs to be done doesn't kill you off, the cost of the data feed you have to subscribe to and the cost of the software updates you need almost certainly will.....***you*** are the bunny - not the other forex traders.

There is investment and there is punting. We are talking about investing. That means getting the best return on your money, not the pursuit an exceptional life changing miracle event. We are talking plain vanilla. Lets get that right first before we go play at the edges (which we will).

"These changes also flow into the labour market forecasts with the unemployment peak now put at 6.2% in mid 2010 (6.5% previously)."

The NAB said core inflation forecasts "are broadly unchanged at 2% at end 2010 (a touch lower than the RBA's). The continued high currency is an important factor in keeping the inflation outcome at the bottom end of the RBA target."

And on interest rates, the bank said it saw the RBA increasing rates in each of its next two meetings in February and March.

"The stronger economy could have raised the risk of RBA doing more, but, on the other hand the action of some banks in increasing rates by more than the RBA has partially offset that risk.

"The possibility that the RBA only moves once in early 2010 probably now depends on banks doing more again.

"Against that, much depends on inflation remaining contained and the economy not accelerating even faster than expected.

"Thereafter, we continue to expect the RBA to pause for around 6 months before delivering progressive 50 point (2 by 25 point) rises until rates are back to near neutral.

"This would see rates at 4.75% by late 2010 and 5.5% by late 2011."

The RBA lifted rates again to 3.75% for a third time in as many months at last week's last board meeting for the year.

The outlook is for more of the same in the first quarter of the New Year

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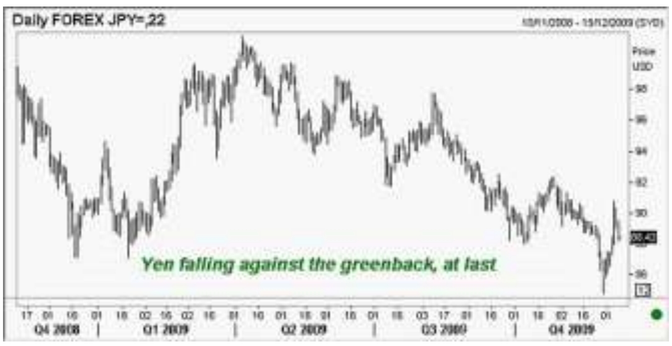
Japan Doubles Stimulus Package

Japan's cabinet has approved a huge economic stimulus package worth $US81 billion (or 7.2 trillion yen) of direct spending, and a further $US150 billion of non-cash aid.



It is more than double the size of the original cash spending that was put at $US31 billion, which was due to be announced on Friday, but was delayed after a key upper house ally of the Democratic Party of Japan Government objected to it and wanted it boosted substantially.

The spending – which amounts to about 1.5% of GDP (which is contracting)– will not involve large-scale new debt issuance as Prime Minister Yukio Hatoyama wants to avoid boosting the size of Japan's already huge debt burden.

The package is meant to boost a fragile recovery from Japan's worst post-war recession, which is now threatened by deflation and the strong yen's impact on exporting companies.

Figures out today will confirm the rebound in growth that began earlier in the year is fading.

The cabinet of Prime Minister Yukio Hatoyama agreed on the size of the package (to be financed by an extra budget for the financial year to March 2010), after its announcement was delayed last Friday by opposition from the party led by financial services minister, Shizuka Kamei.

He is considered likely to keep calling for larger and debt-financed spending when the government compiles the budget for the fiscal year starting next April.

His party's support is vital for getting the budget and the spending through Japan's upper house.

"We made a cabinet decision on the emergency economic measures," chief government spokesman Hirofumi Hirano said. "The scale exceeds 24 trillion yen in terms of the value of projects."

The new package totals 24.4 trillion yen ($US274 billion).

That includes direct spending of $US80.6 billion as well as loan guarantees and other measures that do not require actual government outlays.

It would extend a reward program for energy-efficient appliances and loan guarantees for small and mid-size businesses, and include spending to help companies retain workers.

The cash component will come from the previous government's first supplementary budget, which was worth 13.9 trillion yen.

The latest stimulus plan includes 3.5 trillion yen to help regions, 600 billion yen for employment and 800 billion yen on environmental initiatives.

The need for the new stimulus spending will be underlined today when the government will probably say third-quarter economic growth was slower than initially reported.

The revised growth figures, to be issued later today, will confirm the signals coming from monthly data for September showing a slowing trend, a situation that has spilled over into October and last month.

GDP rose at an annual 4.8% rate in the three months ended September 30, according to the first estimate issued last month.

Now the market is expecting that to fall substantially to an annual rate of 2.8%: still positive, but a sign the expansion from earlier in the year is tapering off.

Government figures released last week showed companies cut capital spending at a record pace in the quarter (which is Japan's second of its March 2010 financial year).

The IMF and other forecasters say the Japanese economy will contract by more than 5% in calendar 2009, more than the 4%-plus fall expected in the euro area and a 2.7% shrinking in the US.

Japan’s exports have led the recovery, dragging industrial production and some other parts of the economy higher.

Exports had their best performance in a year in October, thanks to the strong spending and rebound in China and the impact of car scrapping plans around the world, which has helped the country's important car sector recover (and boosted steel output as well).

But imports remain weak (thanks to low demand and falling prices from the strong yen, and lower contract prices.

That helped the trade surplus rise 42% from a year earlier to 1.4 trillion yen or $US15 billion, a sure sign the Japanese economy remains trapped in its old, bad ways.

Despite the export performance, industrial production slowed to its lowest rate of growth in eight months in October (and is more than 15% down on a year ago).

Wages fell for a 17th month, consumer prices fell a near-record 2.2% (and down 1.1% on a core, non food, non energy basis).

But unemployment fell to 5.1%, to continue the recent improvement in October.

The Japanese stimulus package (the third or fourth from a Japanese government in the past two years) comes as other countries around the world consider how to withdraw stimulus and support packages as economic growth recovers.

Australia is doing both: cutting stimulus spending and the Reserve Bank is raising interest rates.

Japan is a long way from where we in Australia are.

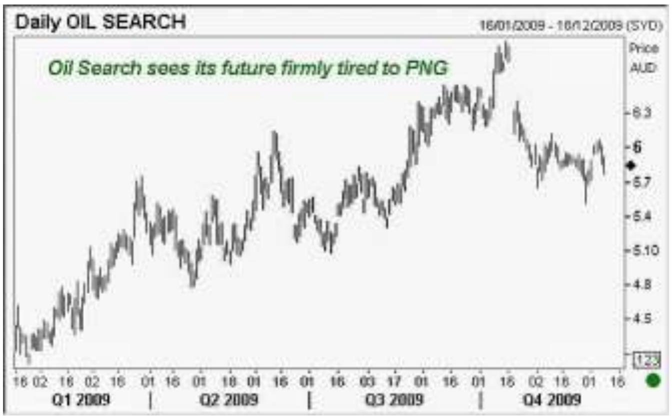
But besides this plan, the Bank of Japan released a 10 trillion yen credit program last week (that's so-called quantitative easing) to fight declining prices.

Under the program, the central bank will offer three-month loans to commercial banks at 0.1%.

The Bank of Japan's move and the surprisingly good employment report for last month in the US has seen a change in attitude to the value of the US dollar, with it rising against the yen.

The Tokyo stockmarket has risen more than 10% in just over a week after the central bank's move.

PNG LNG Greenlighted



The $US15 billion ($A16.46 billion) liquefied natural gas (LNG) project in Papua New Guinea has been given the go-ahead, subject to finalising sales agreements and finance, both of which won't be a concern.

The PNG LNG project is a joint venture led by a subsidiary of energy giant Exxon Mobil, with several partners, including Santos and Oil Search in Australia.

ExxonMobil will own 33.2%, Oil Search, 29%, the PNG Government 16.2% and Santos 13.2%.

The project, which will produce 6.6 million tonnes a year of LNG from late 2013 or early 2014, will be the largest private investment in PNG and is expected to contribute more than $30 billion to the nation's economy over the life of the project.

The project will develop gas fields in PNG's Highlands and Western Province and transport the gas via pipeline to an LNG facility near Port Moresby for shipment to customers, mostly in Asia.

It's the 5th LNG project in the Australasian region to be given the OK, or to be in production.

The first was the North West Shelf in WA where the Woodside led group is examining plans to extend its life by another two decades, at a cost of $5 billion or more.

There's Pluto, the big project from Woodside, the huge $43 billion Gorgon deal and the Bayu-Undan producing project which has its LNG plant near Darwin.

As well, the news comes only three days after Chevron and Tokyo Electric Power signed a heads of agreement on a huge LNG contract that could be worth $A90 billion for the Wheatstone project offshore the Pilbara coast in Western Australia.

Chevron said yesterday it expects to sign a further sales agreement with a major Korean buyer early in 2010.

Besides Oil Search and Santos Japan's Nippon Oil, the PNG government and a trustee to represent landowners affected by the project, are in the project that will be led by ExxonMobil.

A final investment decision was forecast to come by yesterday and it duly came in an announcement from an Exxon subsidiary called Exxon Highlands.

"Exxon Mobil Corporation announced today that the co-venturers have agreed to proceed with the development of the Papua New Guinea (PNG) liquefied natural gas (LNG) project, pending completion of sales and purchase agreements with LNG buyers and finalization of financing arrangements with lenders.

"At a ceremony at the PNG National Parliament House in Port Moresby, Peter Graham, managing director of Esso Highlands Limited, an ExxonMobil subsidiary, announced that pending completion of these sales and financing arrangements, significant project activity will commence in 2010. Esso Highlands is the operator of the project.

“With global demand for LNG forecast to nearly triple by 2030, the PNG LNG Project will be an important supply source to meet this future demand, particularly for the economies in the fast growing Asia Pacific region,” said Neil Duffin, president of ExxonMobil Development Company.

“The supply of cleaner-burning natural gas will also be critical in helping reduce global emissions.

"The co-venturer approval of the PNG LNG Project is a significant milestone.

"We look forward to applying our world-class execution capabilities and continuing to work together cooperatively with the PNG government to bring this resource to production.”

Oil Search CEO, Peter Botten said in a statement that the decision to move ahead with the PNG LNG Project will "transform Oil Search into a major participant in a world scale Liquefied Natural Gas (LNG) project.

"PNG LNG represents a long term legacy project which will add over 19 million barrels of oil equivalent to our annual production and result in approximately a nine-fold increase in our booked oil and gas reserves.

"The impact on PNG is no less significant.

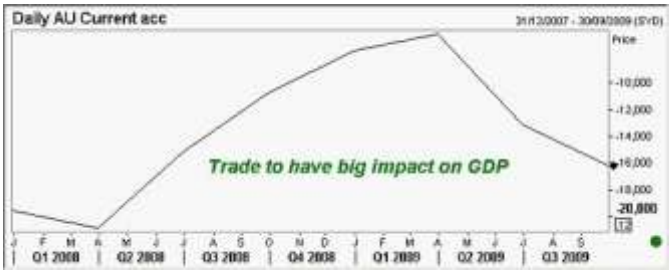
"The development of this Project represents an opportunity to fundamentally change the outlook of the PNG economy and its people. When the Project commences production, the country's Gross Domestic Product will more than double and export revenues will triple."

He said significant project activity is scheduled to commence in 2010, with the award of key Execution, Procurement and Construction contracts due to be announced shortly.

"While there will no doubt be many challenges, the PNG LNG partners are fully aligned on bringing this Project into production in late 2013/early 2014, with continued strong support from the PNG Government."

Buyers of gas from the project already are Japan's Tokyo Electric Power and Osaka Gas, Taiwan's CPC Corp and China's Sinopec Corp.

Trade To Have Negative Impact On Third Quarter GDP



Foreign trade will make its biggest negative quarterly contribution to economic growth in 35 years in the September quarter, thanks to the impact of lower contract and market prices for coal and iron ore, plus energy.

Figures from the Australian Bureau of Statistics show that exports of goods and services fell 2.3% in seasonally adjusted, chain volume (real) terms, while imports were up by 5.8% in the quarter.

The drop in exports and rise in imports combined would mean that for any given level of final spending within Australia, gross domestic product (GDP) will be 1.8% lower from this source on the volume measure (not price or expenditure), the ABS estimated.

The ABS warned that this forecast assumed there was "no significant revision to the GDP (chain volume) estimate for the June quarter".

If it stands, it would be the biggest negative contribution to growth since the March quarter of 1974, according to the ABS data.

However, the big negative hit from foreign trade will be offset by the positive contribution to GDP growth of 1.9 percentage points revealed by business inventories figures published by the ABS last week.

That leaves the likely change in GDP to be reported by the ABS in its September quarter national accounts survey due a week today to be determined by final spending.

It is already known that household spending was sluggish, with a fall of 0.4 percentage points in retail trade.

Business investment, another key component of spending, was also weak and the ABS figures released 10 days ago showed 3.9% fall in investment in September, although the national accounts measure of investment is broader (as it is for the contribution from corporate profits and wages).

On the other hand, housing construction activity was up, while government spending typically adds to growth, although those figures will not be released until Tuesday, the day before the GDP figures.

The government spending figures and the national accounts are a fortnight late because they are being rebased using new industry data. Yesterday's current account figures were also late.

All In all, the figures point to a sluggish quarter (as forecast by the Reserve Bank).

But with the NAB business survey forecasting a strong rise in activity in this quarter (and a stronger one in the third quarter), growth could surprise.

"With high levels of confidence, activity and forward orders we now expect GDP to increase by around 0.5% in Q4 (on the back of our current forecast of 0.9% in Q3)," The NAB said yesterday.

"That means GDP in 2009 is now expected to be around +1.25% (+1% previously)."

If that happens, then the RBA's interest rate rises are vindicated, and if third quarter growth is low, then some will question them (as they always do).

But the NAB survey showed no impact at all from the October and November rate increases.

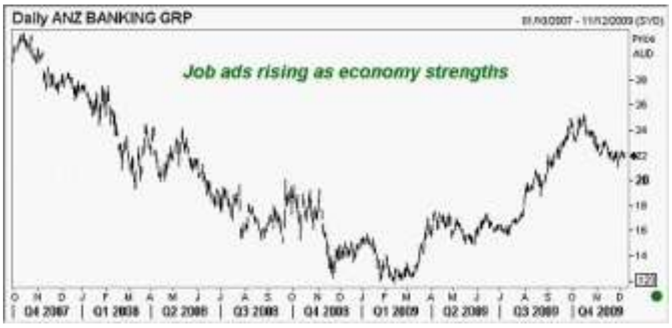
The ABS reported yesterday that the September quarter's current account figures show that in seasonally adjusted, current price terms, the current account deficit rose 23%, or $3.050 billion to $16.183 billion from the June quarter.

Exports of goods and services fell $2.455 billion, thanks to lower prices for exports of coal, iron ore and energy, while imports of goods and services rose $1.770 billion.

The ABS said that in seasonally adjusted chain volume terms, "there was a turnaround of $4,823m on the June quarter surplus on goods and services, resulting in a deficit of $3,961m.

- The goods and services deficit rose $4,225m to $5,409m
- The primary income deficit fell $1,149m (10%) to $10,677m
- The secondary income deficit fell $25m (20%) to $98m."

Job Ads Grow At Two Year High



The Australian economy's rebound is still happening, according to job ads figures from the ANZ's November report yesterday.

The ANZ said yesterday the total number of jobs advertised in major metropolitan newspapers and on the internet rose 5.2%, reversing a 1.7% drop in October.

It was the strongest growth in job ads for two years.

Ads in papers alone rose 8.3%, which should be good news for the likes of Fairfax and News Ltd.

"The 8.3% lift in newspaper job advertising in November is particularly encouraging, given that this sector tends to 'lead' overall job advertising trends," according to Warren Hogan, ANZ's acting chief economist.

He said that with other positive recent economic news, "these data imply that Australia's recovery from the recent downturn is gathering pace," he said in a statement today.

The ANZ's survey's rise comes after the Olivier recruitment group's index showed full time job ads rose 5.9% last month, more than the 4.6% increase in part-time positions job ads.

Job ads rose to average 140,658 a week last month, but the job gains came entirely in part-time work.

Mr Hogan said full-time jobs have dropped 10,400 since June, while part-time positions have added 85,500 in the same period.

"The net addition in headcount in recent months is telling us only part of the labour market story, with actual demand still proving to be soft," Mr Hogan said in a statement.

But the ANZ report shows that total job advertisements are now 12.3% higher than the trough recorded in July, but they are still 34.2% lower than in November 2008.

In trend terms, the total number of job advertisements increased by 1.6% in November, the same pace of trend growth as seen in October.

The number of internet job advertisements rose by 5.0% to average 131,128 per week but they remained 35.1% lower than a year ago.

In trend terms, internet job advertisements rose by 1.5% in November but are still 36.6% lower than in November 2008 in trend terms.

The ANZ said that in trend terms, the number of newspaper job advertisements grew by 2.3% in November, their sixth consecutive month of trend growth

"The biggest increase in newspaper job advertisements in September was in WA (+18.4%), followed by VIC (+14.0%), the NT (+10.5%), the ACT (+10.3%), SA (+7.2%), NSW (+6.0%) and TAS (+0.8%).

"QLD was the only state to experience a fall in newspaper job advertisements this month," the ANZ said.

The November employment and jobs figures are out Thursday: the market thinks 5,000 new jobs were created, but the unemployment rate could rise to 5.9% as more people rejoin the work force looking for jobs.

Mr Hogan said total job advertisements are now well past their trough point, with four months of trend growth recorded since July.

"The 8.3% lift in newspaper job advertising in November is particularly encouraging, given that this sector tends to ‘lead’ overall job advertising trends. Eventually the improvement in job advertising will translate into higher employment growth.

"The recent strength in job advertising is consistent with the positive trends seen in many other indicators across the Australian economy.

"Taken together, these data imply that Australia’s recovery from the recent downturn is gathering pace.

"Employment growth is also now trending upwards, after contracting through the first half of 2009.

"The unemployment rate appears to have stabilised in the high ‘fives’.

"This is good news for households and businesses alike, but net jobs growth remains weak by historical standards, with considerable volatility in recent monthly jobs growth."

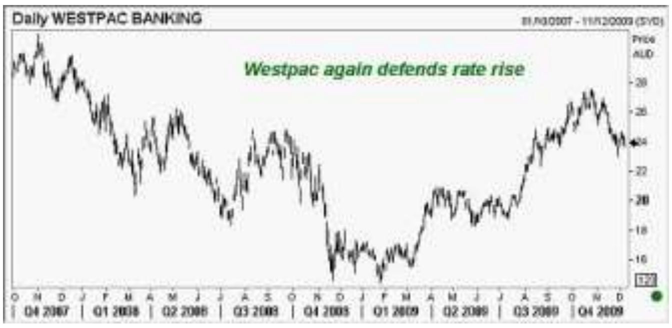
"In the near term, we expect weak employment growth over the summer months.

"If total hours worked picks up pace, then more of these jobs will be full-time.

"But even with this jobs growth, continuing labour force growth will still see a further increase in the national unemployment rate, probably to around 6.5% in mid-2010," Mr Hogan said.

Westpac’s “New Normal” Strategy Outlined

Is Westpac feeling the heat already from last week's decision to lift home loan rates by a market leading 0.45%?



After the changes last week, Westpac's standard home loan rate is the second highest behind that on offer from its subsidiary, St George.

Westpac's standard variable home loan rate (SVR) currently stand at 6.76% at Westpac, 6.66% at ANZ, 6.61% CBA and 6.49% at NAB.

The Westpac-owned St George Bank lifted its standard rate by 0.39% to 6.68%.

Mr Hanlon had to sell the change at Westpac last week and he did so in a fitful way. Mrs Kelly and the rest of the bank's board and management were nowhere to be seen.

Yesterday, the bank revealed that Peter Hanlon, its retail and business banking head, has been appointed group executive for people and transformation, responsible for modernising the system and processes in place to serve customers.

The move is an effective demotion, moving him down one rung in reporting levels from the chief executive, Gail Kelly.

Rob Coombe, former CEO of Westpac's 60% funds management arm, BT Financial Group, will replace Mr Hanlon as group executive for retail and business banking.

Mr Coombe's only retail experience was at BT where he was head of its retail business, before being promoted to replace David Clarke, who departed in 2004.

When he was promoted to head of BT, he was touted as a possible replacement for then CEO, David Morgan.

That never happened and Mrs Kelly was head-hunted from St George.

But some media reports claimed that Mr Hanlon, Mr Coombe and Mr Cooper were all in the running to replace CEO Gail Kelly.

"We have established a multi-brand business model with the successful merger with St George, and we have built a strong one-team culture," chief executive Gail Kelly said in the statement yesterday.

"The next phase of our transformation lies in significantly strengthening our focus on customers, people and productivity."

Westpac said Mr Hanlon would be responsible in his new role for the customer and productivity elements of the transformation program as well as corporate affairs and sustainability.

Brad Cooper, who led the St George integration, will replace Mr Coombe as chief executive of BT Financial Group.

All appointments take effect on February 1.

"The newly created role of Group Executive, People and Transformation will include the key customer, people and productivity elements of our Transformation program. It also includes Corporate Affairs & Sustainability," Mrs Kelly said.

“Peter Hanlon is the ideal choice for this important role, with his broad strategic capability and his deep involvement in the development and implementation of our distribution strategy.

"Peter has been key to the excellent performance of our Westpac Retail & Business Bank, managing the significant investment and roll out of our local branch and bank manager strategy, and achieving strong growth in cross-sell and market share,” Mrs Kelly said in the statement yesterday.

The bank said Mr Coombe was Chief Executive, BT Financial Group for five years, during which the BT Financial Group has established leading retail market share and developed sector-leading platforms, including through the addition of Asgard.

"He has also led the development of BT's innovative Super for Life product and has driven industry-leading cross sell levels of wealth and insurance products into The Westpac Group distribution channels."

"Over the past 18 months, Brad Cooper has successfully led the St.George integration, as well as playing a pivotal role in the design and first phase of our Transformation.

"With his extensive financial services experience, including as Chief Executive, Westpac New Zealand, and before that as Chairman GE Capital Bank and CEO of GE Money's UK and Ireland business, Brad is well placed to lead BT Financial Group through the next period," Mrs Kelly said in the statement.

"The appointments being announced today will provide fresh focus and energy to the executive team. Peter, Rob and Brad are seasoned executives who bring deep experience to their new roles," she added.

That can be a strength if change has to be made, but from what Westpac said yesterday in the statement and in a separate presentation on its strategy update, the changes seem more than a little out of place.

Why they had to be made yesterday isn't clear.

In the briefing Westpac, especially Mrs Kelly spoke a lot about how Westpac had a "Customer centric strategy", a phrase that was mentioned extensively by each of the briefing executives.

Mrs Kelly said in her overview yesterday that the first stage in the "transformational strategy was complete for Westpac and St George.

The highlights of this, she said in her presentation were " Clear vision and strategy – putting customers at the centre; Operating model established; St.George merger – transforming the Group; Multi-brand platform providing customer choice; Significant investment in distribution, particularly via Westpac Local; Technology – enhanced reliability, 5 year strategy and roadmap established.

She said the second phase was underway with "Focus on delivery; People - leadership, culture, skills development, one team; Productivity - simplification, sales force effectiveness, efficiency; Technology - strategic investment program underway; Managing in the "new normal" environment."

She defended the decision to lift rates last week, arguing that the cost of funds had fallen more slowly than the fall of interest rates. It was the defence Mr Hanlon used last week.

Despite this claim and one of the bank not passing on all of its higher costs to customers earlier in the year, Westpac saw its overall net interest margin rise by 0.31% in the year to September, with home loan mortgage interest margins rising 15%.

There was no mention of any earnings guidance nearly 10 weeks into the new financial year.

Hopefully that will come at next week's AGM.

Skilled's Profit Warning Could Start A Trend

Even though the economy missed the slump and employment is starting to improve, Skilled Group, the country's dominant labour hire and services group, has seen its shares sold off heavily in the wake of an update that warned 2010 earnings won't make the grade.

Skilled sent a tremor through its investors Friday when it warned in a three page update that the profit levels expected for the current year, would not be reached.

That was only months after it said the worst appeared to be over in guidance issued during an $80.9 million, $1.50 a share capital raising.

It's the sort of profit warning we may see a bit more of in the next couple of months as companies rule off the December 31 accounts and start issuing trading updates.

It's something to remember as companies start updating trading over the next month to six weeks.

The surprises will be scattered, but they could be out of the blue in some cases, as Skilled's update seems to have been, so far as the market is concerned.

Yesterday's ANZ job ads figures revealing a strong rise in the number of ad also showed that part time work is stronger than full time employment.

Skilled shares fell 16% on Friday to $1.86, and yesterday fell a couple of cents, then rose four to $1.90, before again easing to close off half a cent at $1.855.

The company said analyst forecasts that it would make profits of $88 million, before interest, tax and depreciation in 2010, now won't happen.

Instead, the company said parts of its business were yet to experience an improvement in economic activity and its average revenue run rate was lower than in the second half of last financial year.

"In the July – October 2009 period, SKILLED Group has been operating at an underlying EBITDA dollar run rate modestly above that of the average 2H FY2009 and this run rate is progressively increasing.

"Group revenue run rates are also improving but currently are slightly below the average revenue run rate of 2H FY2009.

"Notwithstanding the improving performance, given the low starting run rates for EBITDA and revenue, current internal forecasts suggest that it is unlikely that the average analyst forecast for FY2010 of $88m EBITDA will be reached.

"While it is clear that the economic and hence market environment is improving this is yet to impact all areas of our business."

The company said that analysts were getting too optimistic and running ahead of reality.

And the final comment in the update told us Skilled has all but abandoned 2010.

"Notwithstanding the differing responses of SKILLED Group’s business areas to an economic recovery that is still gathering strength, the Group financial trajectory is positive and the foundation is being laid for a strong performance in FY2011 and beyond."

Skilled Group's said its labour hire division, which accounts for about half of the business, was performing and growing with the economy.

"Workforce Services (blue collar labour hire and 50% of SKE revenue) is experiencing a strong rebound with weekly revenue up 18% from the start of July 2009. This is above typical seasonal movements.

"Other staffing businesses are showing mixed performance since the beginning of the financial year with strong growth in the PeopleCo brand (small – medium enterprise staffing), flat performance in Mosaic (white collar recruitment), and minor declines in SWAN (technical professionals contracting) and Origin Healthcare (healthcare staffing).

"In aggregate we expect Staffing Services to continue to grow through the rest of the financial year."

But the areas of the business that depend on larger scale capital investment, such as its placement services in engineering and the oil and gas industry, were not performing as well.

In the Engineering and Marine Services area:

"ATIVO (maintenance and project engineering) is yet to rebound although its order book is building.

"OMS (offshore marine manning and vessel services) is running a little below the average of 2H FY2009 and is yet to show a growth trend. This is due to a weak vessel market driven by a temporary global slowdown in oil and gas offshore expenditure, offsetting good growth in revenue and profit in the manning area.

"We anticipate performance improving through the 2nd half of this financial year and expect this business to deliver full year results around that of FY2009."

The sluggishness in the above areas, especially in Western Australia, in the face of strong activity in iron ore and the gathering LNG boom, tells us that expectations of a surge in jobs in the state is slow to appear.

Jobs figures for September and October from the Australian Bureau of Statistics have shown a slow rebound in jobs growth in that state, and in Queensland.

The November figures are out on Thursday.

Origin's Share In Bass Strat Gas Cut

Origin Energy says it has been unable from buying the full 51.55% stake in the Otway Gas Project from Woodside, after a third member of the joint venture partner decided to exercise some of its pre-emption rights in the project.

Origin was unable to take the full stake from Woodside for $712.5 million, and instead plans to take a smaller stake for $507.2 million, according to a statement from Origin yesterday.

The original 51.55% stake Origin wanted to buy from Woodside was reduced because another joint venture partner, Benaris International, decided to exercise its pre-emption right in relation to some of its interests in the project.

Another joint venture partner, CalEnergy (Gas) Australia, decided not to exercise its pre-emption rights.

Origin had held a 30.75% stake in the project, located offshore from Port Campbell in Victoria prior to the deal being agreed to.

The Otway Gas Project covers the Geographe and Thylacine gas fields, which were discovered in the offshore Otway Basin 55 – 70 kilometres respectively south of Port Campbell Victoria in mid-2001.

The Otway Gas Project is expected to ultimately produce 885 petajoules of natural gas, 12.2 million barrels of condensate and 1.7 million tonnes of liquid petroleum gas (LPG).

After the Woodside stake has been sold, Origin will become project manager.

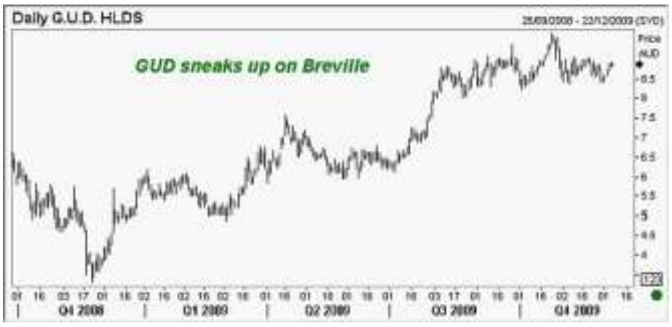
It will hold a 67.23% stake in the development of the joint venture, and stakes in exploration of some targets of between 67.23% and 82.30%.

Origin said the sale of Woodside's stake in the project still is subject to satisfaction of a number of conditions precedent, including assignment of third party contracts.

But it is "expected that completion will occur by the end of 2009'' the statement said.

Shares in Origin were trading up 3 cents at $15.73.

GUD Moves Closer To BRG



GUD has moved tantalisingly close to a controlling interest in Breville Group.

GUD told the ASX yesterday that it now has a total interest in 48.12% of Breville's capital directly and through an acceptance facility.

More than 35.61 million shares are in the acceptance facility, or 27.5% of Breville's issued capital. These do not indicate acceptance of the offer from GUD.

GUD had struck agreements from other shareholders before its offer that saw it say in the takeover announcement that it had agreement (subject to there being no higher bid) from the holders of around 47%-48% of Breville's issued shares.

GUD now also has acceptances directly, plus its own holding. That totals 20.62%.

On November 30, Breville said it had acceptances of 19.4% of Breville.

So more than 1.2% has flowed in the past week.

GUD extended the offer last week to December 30.

Seeing GUD started with a holding of 19.2% of Breville, direct acceptances have been slow.

GUD is offering one of its shares (worth $8.88, up 3c yesterday) for every four Breville shares (worth $2.30, steady).

Breville directors have told GUD holders to reject the GUD offer.

But so far they have not put up an alternative and the major shareholder, Premier Investments (Solomon Lew), which holds around 30%, is saying nothing except to note the offer from GUD.