



GTC FINANCIAL SERVICES

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Economic Update April 2016

Within this month's update, we share with you a snapshot of economic occurrences nationally and from around the globe. We hope you find this month's economic update as informative as always.

Economic Update - April 2016



The Big Picture

If you feel confused by recent events in financial markets, you are certainly not alone. But, as we tried to convey in recent Economic Updates, some people deliberately put out bad news to grab headlines; some are manipulating markets behind the scenes in short-selling and the like; and calm, informed analysts and commentators get crowded out by the other two groups.

Now that the Quarter One (Q1) 'volatility cluster' is behind us we can say we saw what happened. At the time, we could not be certain but – as they say in courts of law – for us it was beyond reasonable doubt.

Whatever was the catalyst – probably the United States (US) Fed rate hike in December or it was just 'the time was right for a correction' – commodity prices nose-dived to unsustainable levels in Q1.

When the price of oil got down to the mid 20's some big houses were calling \$10 and \$20. But prices jumped to around \$40 and stabilised. Iron ore prices also plummeted and bounced back as hard. In fact, on March 8th, the price of iron ore had its best day ever – up +19% in one day!

The calls for a hard landing in China and a recession in the US have come and gone. They will come back again one day and someone will listen – but not us unless there are sound reasons for such calls.

The moral of the story is simple. Events like these happen from time to time so long-term investors should be positioning their portfolios before such events, and then sit tight. The whole point of these 'squeezes' is what we call 'shaking the tree' in the industry. You shake the tree so some fruit falls and someone picks it up to their benefit. In finance – some force prices down to get people to sell in fear and panic so that they can buy cheaply.

So where is the world heading? It's fine but not great – just as it was late last year. We discuss the details in the 'Regional Section' below. Let's just focus on the big game in town here.

The Prime Minister got the new Senate voting procedures through both Houses and then flagged a possible election and double dissolution for July 2nd. As we wrote in 2013 the voting

procedures needed to change and now they have. People will now get the people they vote for and not those that did backroom deals with almost no first preferences. It was never to Australia's advantage (whoever won majority) that a clutch of micro parties had to be placated to get any business done in parliament. We are back on track.

But the budget is now to be on May 3rd and the election looks like July 2nd. That means the Reserve Bank is unlikely to change rates at those times. In fact, it now looks like there can be no rate cut until around August/September.

On top of that the US Fed's talk and US data have pushed back previously expected rate hikes probably to December if not later. These interest rate scenarios amount to a massive change in policy just since last month's Economic Update! We think this means that the Australian economy will be a little more sluggish than we previously expected it to be.

In summation it is important to understand your investments in good times so that you don't have to sell in bad. Unless you are a trader it is best to be calm when headlines get gloomy.

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If you have any feedback or would like to discuss any aspect of this report, please feel free to call our office on 07 4972 5177 or email info@gtcfin.com.au.

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