Zenith Monthly Market Report (31 August 2009)

MARKET INDICATORS

Market	Indicator	Current	Last Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	3.00	3.00	0.00%	7.25	-4.25%
	3 Month Interbank Borrowing Rt	3.40	3.38	0.02%	7.29	-3.89%
	10 Year Bond	5.41	5.60	-0.19%	5.75	-0.34%
Australian Shares	All Ords	4484.10	4249.50	5.52%	5215.50	-14.02%
	S&P/ASX 200	4479.10	4244.00	5.54%	5135.60	-12.78%
Regional Shares	Dow Jones Industrials (US)	9496.28	9171.61	3.54%	11543.55	-17.74%
	S&P 500 (US)	1020.62	987.48	3.36%	1282.83	-20.44%
	FTSE 100 (UK)	4908.90	4608.36	6.52%	5636.61	-12.91%
	TOPIX (Japan)	965.73	950.26	1.63%	1254.71	-23.03%
	Hang Seng (Hong Kong)	19724.19	20573.33	-4.13%	21261.89	-7.23%
Property	ASX 300 A-REITS Index	863.79	756.09	14.24%	1432.82	-39.71%
	US$ Gold Price	955.95	934.30	2.32%	834.60	14.54%
	US$ Oil Price – West Texas Crude	72.60	70.28	3.30%	113.45	-36.01%
	US$ CRB Spot Commodity Index	381.52	371.62	2.66%	439.41	-13.17%
Exchange Rates	AUD / USD	0.8393	0.8281	1.35%	0.8639	-2.85%
	AUD / EUR	0.5877	0.5862	0.26%	0.5857	0.34%
	AUD / GBP	0.5168	0.5007	3.22%	0.4717	9.56%
	AUD / JPY	77.88	78.95	-1.36%	94.18	-17.31%
Volatility	VIX Index	26.01	25.92	0.35%	20.65	25.96%

Key Points:

- Australian government 10 year bond yields ended the month lower at 5.41% (-0.19%).
- Equity markets rose in August with the Australian and European regional markets continuing to outperform. Equity markets rallied sharply in the early part of August, in response to better than expected economic data. However, concerns over Chinese lending restrictions, drove the Chinese market lower (-8.32%) and subsequently Asian market into decline (-4.57%).
- Gold prices fluctuated during August, trading higher by month end.
- The Australian dollar continued its ascent verses the USD in August after a bout of weakness during the middle of the month. Investors were encouraged by Australian economic data and the prospects of a rate rise in the near future.
- Volatility slightly rose as measured by the VIX Index
- RBA interest rates remain stable.

CASH, FIXED INTEREST & CREDIT

Zenith Benchmarks	Total Return Indices	1 Mth %	1 Yr %	3 Yr % p.a.	5 Yr % p.a.	Fin Yr TD %	Cal Yr TD %
Australian Cash	UBS Bank Bill Index	0.25	4.66	6.24	6.04	4.28	1.55
Australian Bonds	UBS Composite All Maturities	0.72	7.71	6.33	5.88	6.49	-0.14
International Bonds	Barclays Global Aggregate $A	1.11	9.92	7.81	7.15	5.56	1.11

Summary of Statistics:

- **Australian Cash** returned 0.25% in August and 4.66% for the year as measured by the UBS Bank Bill Index.
- **Australian Bonds** rose 0.72% in August, as measured by the UBS Composite All Maturities Index. Australian 10 Year government bonds are now yielding 5.41% in comparison to 5.60% last month and 5.75% a year ago.
- **International bonds** as measured by the Barclays Global Aggregate (Hedged $A) Index rose in August by 1.11%. 10 Year bond yields fell marginally over the month in the US from 3.61% to 3.45% fell in the UK from 3.91% to 3.63% and from 1.41% to 1.31% in Japan.
- **Credit spreads** tightened once again in August as the markets outlook continued to improve.

Commentary:

Australian Bank Bill Yields rose from 3.20% to 3.49% on upbeat RBA commentary and a renewed confidence in the markets. Economic releases were also positive with healthy retail sales (up 2%) and reasonable employment data released. Australian and US 10 year government bonds yields fell during the month with the Australian market taking its lead from the US. Bond Yields fell as a number of global central banks eased expectations of a rate rise and a fall in the Chinese equity market mid-month reduced inflation expectations. Investors also continued to shift from Government bonds to investment grade corporate bonds, where more attractive yields were offered.

Credit spreads once again tightened, continuing the downward trajectory in August both domestically and globally. In the Australian market, investment grade corporate bonds had comparable performances across risk ratings, with AA+ and BBB+ tightening by 43 and 38 bps respectively. This is despite the continued credit rating downgrades of global financial companies by S&P, Fitch and Moody's. During the month S&P reported that the trailing 12 month US speculative grade default rate rose from 9.16% in June to 9.38% in July, and this default rate is anticipated to increase to 14%.

AUSTRALIAN SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. High	Ch. Fr. Low
Australian Shares	S&P/ASX 300	6.64	-8.04	0.03	9.40	-1.02	44.16	-8.04	45.71
Australian Shares - Small Caps	ASX Small Ordinaries	6.37	-14.03	-2.69	7.31	-4.88	67.55	-14.64	71.69
Australian Shares - Style	SPGI BMI Australia Growth	4.33	-11.14	1.99	11.91	-2.51	37.20	-11.13	45.45
	SPGI BMI Australia Value	9.69	-3.47	-1.94	7.97	1.81	56.06	-5.28	59.82
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	-0.28	-18.93	5.41	16.90	-6.76	37.13	-18.93	68.14
	S&P/ASX 300 Industrials	12.11	-19.13	-7.30	2.53	-15.11	64.62	-20.40	71.85
	S&P/ASX 300 Consumer Discretionary	4.67	-8.25	-9.98	-2.72	-7.04	56.14	-10.67	57.73
	S&P/ASX 300 Consumer Staples	1.98	1.79	6.14	12.64	1.57	23.60	-0.96	28.00
	S&P/ASX 300 Financials	13.31	2.16	-4.68	6.55	6.97	64.01	-2.36	70.52
	S&P/ASX 300 IT	4.91	11.64	8.20	14.82	18.66	49.82	-1.43	70.74
	S&P/ASX 300 Telecommunication Svs.	-3.58	-17.35	4.00	0.19	-13.24	7.16	-18.61	14.81
	S&P/ASX 300 Financials ex-Property	12.80	11.48	-1.02	9.65	16.83	65.36	0.00	70.67
	S&P/ASX 300 Property Trusts	16.12	-34.17	-20.20	-6.24	-31.42	55.38	-37.95	68.38

Summary of Statistics:

- **Australian shares** as measured by the S&P/ASX 300 index continued their impressive recovery, recording a monthly gain of 6.64%.
- The **small cap sector** also contributed another positive return, slightly underperforming large caps with a return of 6.37%.
- From a **sector** basis the rally was fairly narrow, with large discrepancies between sectors. The strongest performers in August were Property Trusts (+16.12%) and Financials (+13.13%), while the weaker performances came from Telecommunication (-3.58%) and Materials (-0.28%).

Commentary:

August signalled the start of the profit reporting season for the Australian companies and results were generally strong. The heavy expectations of net losses were tempered when 64% of the 420 companies monitored by CommSec reported a profit for the 2008/2009 financial year. In fact, 42% of companies actually had an improvement in profits, from the previous financial year. The ASX reported that secondary capital raisings were a record $15bn in July. Telstra reported a 7.1% rise in H2 EBITDA, this however did not reach market expectations and the share price fell. Overall the telecommunications sector (-3.58%) was the worst performer in the Australian market.

The Banks provided an abundance of action in the market with several major acquisitions by ANZ, NAB and Macquarie. Deals included ANZ purchasing RBS Asian businesses for US$550m, NAB buying Challenger's mortgage business for AUD$385m, and Macquarie acquiring Delaware Investments for US$428m, a move which will strengthen its US asset management capabilities.

INTERNATIONAL SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. High	Ch. Fr. Low
International Shares	MSCI World Ex-Au A$	2.58	-15.16	-8.02	-0.24	-15.16	19.41	-17.00	19.41
	MSCI World A$	2.72	-14.85	-7.76	0.04	-14.67	20.12	-16.50	20.12
International Shares - Small Caps	MSCI World Small Companies Ex-Au A$	4.54	-11.53	-8.06	1.10	-12.05	30.07	-13.16	31.12
International Shares - Regional	MSCI US A$	2.04	-16.70	-8.63	-2.77	-19.25	14.73	-20.93	14.73
	MSCI Europe A$	4.85	-15.17	-7.35	3.10	-11.42	30.70	-16.94	30.70
	MSCI AC Asia Ex-Jap $A	-4.57	-0.47	2.68	10.07	7.33	30.59	-4.57	30.70
	MSCI Japan A$	2.49	-8.10	-10.89	-1.35	-8.22	6.87	-12.29	13.99
	MSCI China A$	-8.32	2.93	13.95	19.23	18.45	21.75	-10.35	53.61
	MSCI India A$	-2.46	-0.88	5.66	19.62	5.77	60.64	-6.74	63.06
	MSCI Emerging Markets A$	-1.71	-7.72	2.05	12.89	2.81	33.23	-7.72	36.33
International Shares - Hedged	MSCI World ex-Au $A (Hedged)	3.66	-17.16	-6.23	2.21	-10.37	47.91	-17.16	50.06

Summary of Statistics:

- **International Shares (ex-Australia)** returned 2.58% in August on an unhedged basis and 3.66% on a fully hedged basis.
- **Small caps** (+4.54%) continued its bounce back, outperforming the broader market (+2.58%).
- On a regional basis, Europe (+4.85) and Japan (+2.49) were the best performing markets in $A, while the Chinese market fell (-8.32%)

Commentary:

International shares rallied strongly in the early part of August, thanks to better-than-expected economic reports which were released in late July and early August. Financials performed well on the back of Barclays and HSBC reporting profits, leading to a rally in the European banking sector. Germany and France particularly drove the European Index (+4.85%) after stronger-than-expected GDP and improvements in the German ZEW economic expectations index.

Manufacturing emerged as a highlight in August, as the global manufacturing index rose to a 14 month high. On the back of this, inventories have reached low levels, with companies previously preparing for hibernation during the height of the crisis.

The Chinese Index was down -8.32% in August, mainly due to the fear that Chinese bank may limit lending in the future. A report released during the month showed that lending had already fallen by 77% from June to July. This potential pull back in lending and weaker Shanghai & Hong Kong property markets, contributed to the weaker MSCI Asia Ex-Jap(A$) index return.

PROPERTY & INFRASTRUCTURE

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. High	Ch. Fr. Low
Australian Listed Property	S&P/ASX 300 Property Trusts	16.12	-34.17	-20.20	-6.24	-31.42	55.38	-37.95	68.38
Global Listed Property	FTSE EPRA/NAREIT GLOBAL REITS (Hedged $A)	12.06	-26.94	-24.28		-27.40	61.00	-30.73	68.10
Global Listed Infrastructure	S&P Global Infrastructure Hedged $A	2.50	-18.31	-1.95	9.46	-9.88	37.50	-18.31	40.48

Summary of Statistics:

- In August Australian Listed Property outperformed the majority of global property markets, gaining 16.12% against a rise of 12.06% in Global Listed Property, the UK was the strongest regional market with returns with returns of 17.59%
- Global Listed Infrastructure as represented by the S&P Global Infrastructure Hedged $A returned a positive 2.50%

Commentary:

The domestic reporting season has closed in a sea of red ink for the property sector and the optimistic green shoots being seen in the broader equity market will not be seen for a while yet in real estate markets. That said, most of the REIT markets have seen a strong bounce off the bottom as sentiment based trading still holds sway. While strong headwinds relating to falling occupancy rates, stagnating or declining rents and softening capital values are all in play at the moment, the global REITs have raised well in excess of AU$30bn since October last year and many are now in a position to start capitalising on those weaker players who have failed to sufficiently repair balance sheets. While the sector is looking much healthier than the 2008 picture, do not rule out more capital raisings as we do not believe that real estate markets have bottomed quite yet. The picture is starting to look less bleak, however caution is warranted and investment decisions need to be made carefully with a view to both short and long term outlooks.

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