

## Market Indicators

Market	Indicator	End of Month	Previous Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	4.50	4.50	0.00%	3.00	1.50%
	3 Month BBSW	4.85	4.88	-0.03%	3.40	1.45%
	10 Year Bond	4.76	5.19	-0.44%	5.39	-0.63%
Australian Shares	All Ords	4438.80	4507.40	-1.55%	4484.10	-1.02%
	S&P/ASX 200	4404.20	4493.50	-2.03%	4479.10	-1.70%
Regional Shares	Dow Jones Industrials (US)	11256.29	11578.65	-2.86%	11268.87	-0.11%
	S&P 500 (US)	1179.42	1218.72	-3.33%	1211.13	-2.69%
	FTSE 100 (UK)	9008.62	9129.84	-1.35%	9515.30	-5.62%
	TOPIX (Japan)	10.75	10.87	-1.09%	12.35	-14.81%
	Hang Seng (Hong Kong)	2967.43	2995.33	-0.94%	3019.93	-1.77%
Property	ASX 300 A-REITS Index	860.50	840.70	2.30%	863.80	-0.38%
	US\$ Gold Price	1402.10	1306.56	6.81%	1128.81	19.49%
	US\$ Oil Price – W Texas Crude	80.84	87.34	-8.05%	83.02	-2.70%
	US\$ CRB Spot Commodity Index	511.49	485.19	5.14%	452.74	11.49%
Exchange Rates	AUD / USD	0.8897	0.9042	-1.63%	0.8426	5.29%
	AUD / EUR	0.7011	0.6927	1.20%	0.5875	16.20%
	AUD / GBP	0.5800	0.5764	0.62%	0.5175	10.78%
	AUD / JPY	74.84	78.18	-4.46%	78.22	-4.52%
	TWI	69.00	69.40	-0.58%	66.30	3.91%
Volatility	VIX Index	29.28	26.00	3.28%	30.87	-1.59%

### Key Points:

- In August the Australian Dollar (AUD) weakened slightly against the USD (1.63%) and the Yen (4.46%) but gained against the Pound (0.62%) and the Euro (1.20%). On a trade weighted basis the AUD finished the month 0.58% lower.
- The RBA cash rate remains at 4.50%, with market consensus forecasts tipping a rate hike in November. Bonds prices rose on the back of economic uncertainty felt world-wide, with a 3bp decline in the 3-month BBSW rate and a 43bp drop in the 10 year bond yield.
- The Australian market shed some of July's gains with the S&P/ASX 300 Index closing 1.08% lower. The ASX top 50 held the rest of market back with a 1.53% decline while midcaps, small caps and micro caps put on modest gains of 0.03%, 1.80% and 3.59% respectively.
- August was a disappointing month for offshore equities indices with the all the major indices finishing at a loss. The MSCI World Index (ex Aus, un-hedged) lost 2.12%, mainly driven by a bearish US market (down 1.08%). Asian markets (ex Japan) performed the strongest on a regional basis with a gain of 2.15%.
- A drift to defensive assets lead to an increase of 6.81% in the gold price throughout August, closing at the price of US\$1,402.10. The CRB Spot Commodity index continued its upward trend, with a 5.14% gain.
- Volatility remained unusually flat, the VIX Index decreased by 3.28%.

## Cash, Fixed Interest & Credit

Zenith Benchmarks	Index	Past		3 Yr	5 Yr	Fin Yr To	Cal Yr to	
		1 Mth	Qtr	1 Yr	p.a.	p.a.	Date	Date
Australian Cash	UBSA Bank Bill	0.41	1.23	4.21	5.48	5.74	0.83	3.00
Australian Bonds	UBSA Australia Composite All Maturities	1.92	3.59	9.10	7.90	6.25	2.20	7.21
International Bonds	Barclays Global Aggregate (AUD Hedged) *	3.55	-1.37	4.47	11.89	10.37	-2.19	8.96

### Summary of Statistics:

- **Australian Cash** returned 0.41% in August, returning 4.21% for the last 12 months.
- **Australian Bonds** rose by 1.92% in August as per the UBS Composite All Maturities Index. Australian 10 year government bonds are yielding just 4.76% in comparison to 5.19% last month and 5.39% one year ago.
- **International Bond prices** appreciated by 3.55% in August, as measured by the Barclays Global Aggregate (Hedged \$USD) Index. Bond yields continued to fall in all the major markets, especially in the UK and US.
- In the **Global Corporate Debt Market** high yield debt performed the worst with spreads rising by 0.45%, emerging market debt spreads rose marginally with a 0.24% rise and investment grade debt spreads rose 0.16%.

### Commentary:

The trend towards safety has continued throughout August with market participants dumping stocks in favour of UK, German and US government bonds, forcing yields down to record lows. Ten year government bonds yields in Europe and the US are nearing 2%, a level seen by Japan prior to consumer price deflation set in the late 90's. A divergence between bond yields and equity prices is contrary to the relationship that has held for the past 10 years. Bond markets appear to be tracking the slowing economic momentum, while the equity markets are pricing in growing company profits.

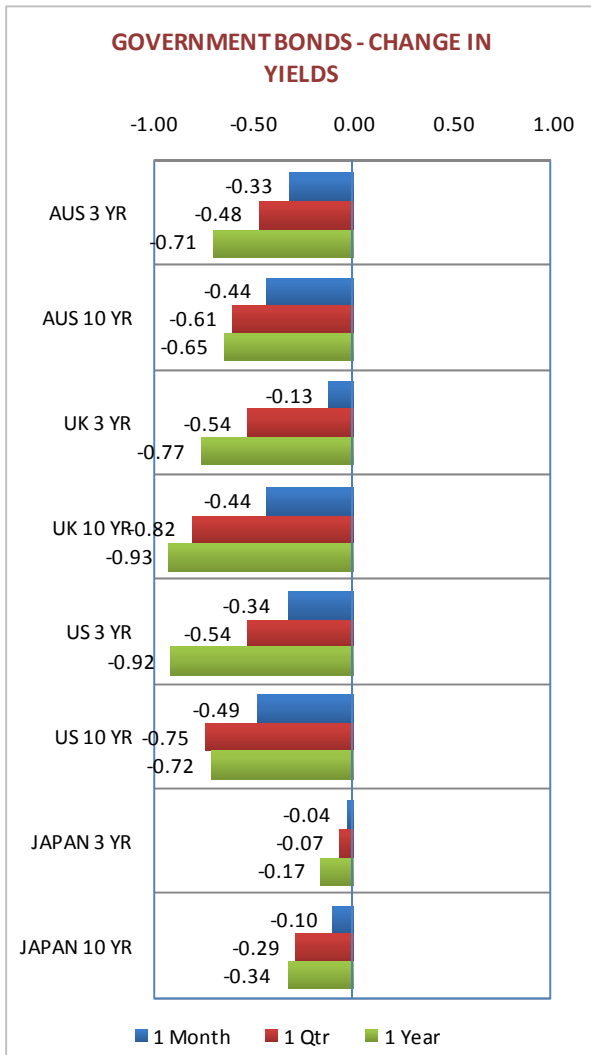
Australian economic data throughout the month failed to deliver any major shocks. The unemployment rate rose by 0.20% to 5.30%, retail sales were up 0.70%, along with a 2.30% rise in building approvals. The RBA held the cash rate at 4.50%, in line with market expectations.

Most of the action was driven by US markets where fears of a "double-dip" recession kicked off a rally in the bond markets. Markets received Ben Bernanke's speech towards the end of the month as an indication that the Fed will not increase its quantitative easing program. US fixed 30-year mortgage rates have hit their lowest rate in nearly 40 years, dropping to 4.36%.

Sovereign debt spreads in Europe were widened on the news that the Spanish government may lose €5 billion in tax receipts due to a court ruling on illegal tax auditing. This enhanced an already cautious outlook for investors, combined with S&P's downgrade of Ireland's credit rating.



\*Zenith has converted USD data to AUD series using 3-month forward rates

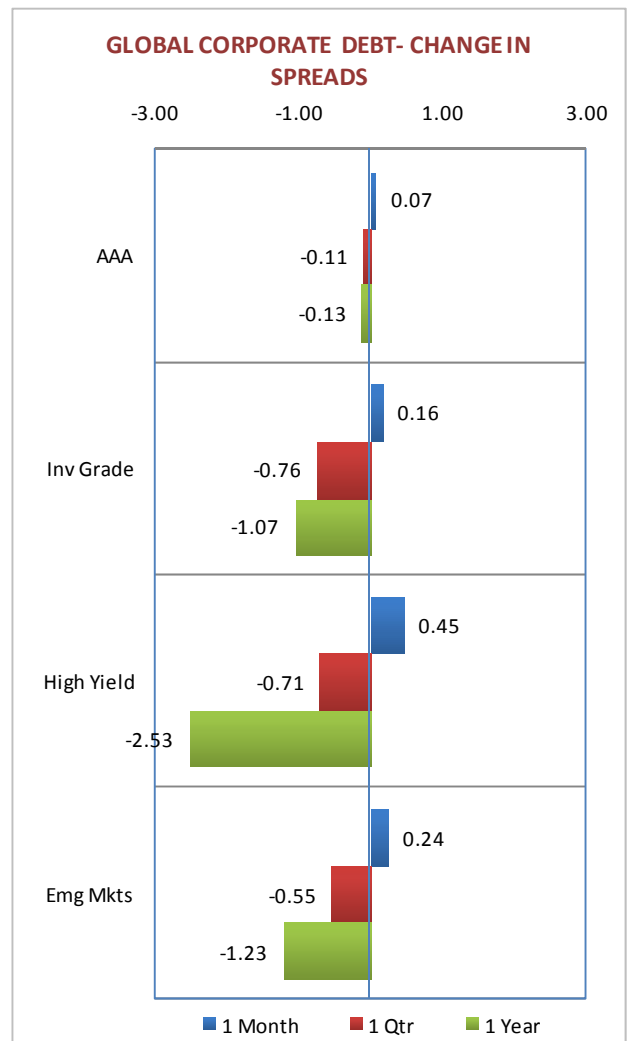


This chart shows the change in Government Bond yields over the past 1 month, 1 quarter and 1 year. A negative change in yields indicates a rise in Bond prices. Country weightings for the Barclays Global Aggregate Index, as at 31 May 2010 were as follows: Aus 1%; UK 6%; US 26%; Japan 33%.

The decline in spreads across the board is reflective of the massive investment in sovereign bonds over the August period.

This chart shows the change in Global corporate debt spreads over the past 1 month, 1 quarter and 1 year. A negative change in spreads indicates a rise in corporate debt security prices and vice versa.

The below shows a mild increase in 1-month spreads, across all debt classes, with a larger tightening in the long term maturities.



## Australian Shares

Zenith Benchmarks	Index	Past		1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
		1 Mth	Qtr					
Australian Shares	S&P/ASX 300	-1.08	0.61	2.07	-7.07	4.22	3.35	-7.08
Australian Shares - Market Cap	ASX 50 Leaders	-1.53	0.35	2.31	-5.98	4.83	2.76	-6.96
	ASX Midcap 50	0.03	0.64	-0.13	-10.57	1.89	4.84	-8.19
	ASX Small Ordinaries	1.80	3.11	2.69	-10.74	2.51	7.11	-6.79
	S&P/ASX Emerging Companies	3.59	5.76				11.21	-6.98
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	-2.01	1.61	9.13	-1.60	11.72	2.81	-6.78
	S&P/ASX 300 Industrials	2.34	2.11	-1.55	-15.74	-2.77	9.66	-11.12
	S&P/ASX 300 Consumer Discretionary	-1.02	-2.35	3.77	-13.56	-3.04	2.88	-7.02
	S&P/ASX 300 Consumer Staples	6.71	9.36	16.83	4.56	12.32	8.59	5.61
	S&P/ASX 300 Energy	1.51	2.49	-8.41	5.14	11.53	5.55	-7.31
	S&P/ASX 300 Healthcare	0.42	1.20	0.21	-0.91	9.05	1.42	-5.25
	S&P/ASX 300 Information Technologies	-3.73	-8.59	-4.45	-3.73	7.46	-6.39	-12.73
	S&P/ASX 300 Telecommunication	-7.33	0.64	-5.36	-5.25	0.07	-7.84	-8.69
	S&P/ASX 300 Financials exProperty	-3.09	-2.21	0.26	-5.64	5.53	3.16	-8.74
	S&P/ASX 300 Utilities	1.36	6.55	10.13	-10.60	2.59	4.51	0.32
	S&P/ASX 300 Property	3.52	3.59	5.97	-23.85	-8.22	4.66	1.36

### Summary of Statistics:

- Australian shares followed on from July's momentum, and peaked mid month before shedding gains to finish 1.08% down. The ASX Top 50 being instrumental in the negative result, losing 1.53% over the month.
- Consumer Staples led the charge on an industry basis with a 6.71% gain. Telecommunications suffered the most, dropping by 7.33%
- The S&P/ASX Emerging Companies index continued to grow with a 3.59% gain, followed by the ASX Small Ordinaries with 1.80%.

### Commentary:

August was a month of ups and downs following a strong July. With the results of the Federal Election failing to deliver a decisive result and no precedent to refer to, the markets focussed on digesting local reporting season results, while factoring in the uncertainty and pessimism faced by markets offshore. Momentum from July was dampened mid August only to rebound at the month's close.

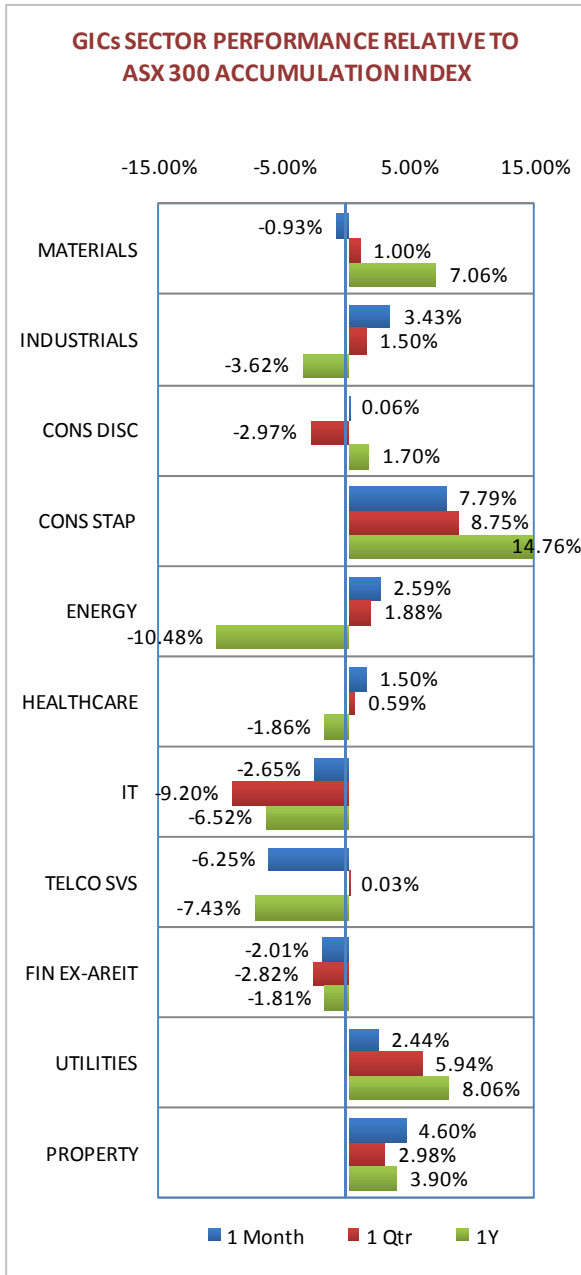
Earnings results surprises were evenly divided between positive and negative, while dividend announcements generally exceeded expectations, reflecting the strong position of cash rich balance sheets across corporate Australia. Markets rebounded at the month's end with ABS data confirming the largest jump in company profits in 9 years, largely driven by the mining and resources stocks. Despite some good news markets are still pricing in the uncertainty fears faced offshore.

The headlines were dominated by BHP's hostile AUS\$44 million pursuit of Canada's Potash Corp. Potash have since taken the proposal public, allowing competitors into the process, including rumours of a bid from Rio Tinto. BHP's share price was pushed below the \$40 and closed the month 7.13% lower at \$37.05.

Leading the retail sector, Woolworths exceeded analyst expectations with a 10% increase in net profits after tax and announced a \$700 million share buyback, finishing with a 12% gain for the month at \$27.76. Leading the resources sector was Fortescue Metals, with a 36% upside surprise earnings result relative to the mean analyst forecasts.

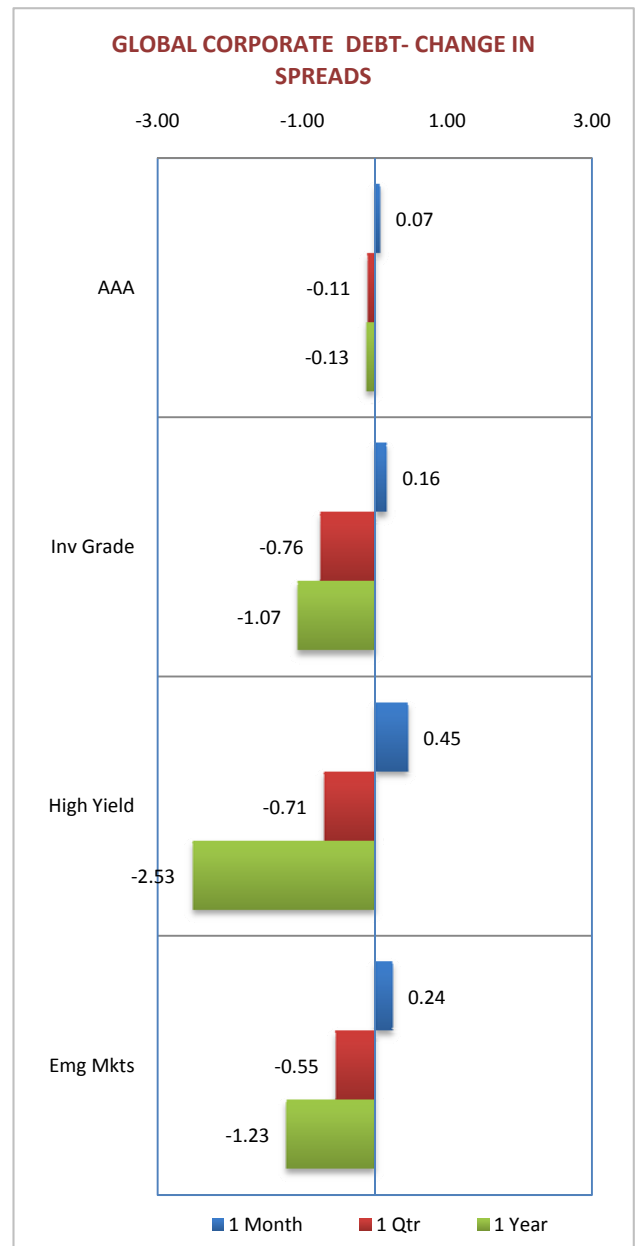
Telstra shares received a punishing on news that the telco's earning guidance figures were well below those of analysts' expectations. A decline of 2.20% YOY in sales helped push the share price to a 52-week low of \$2.74 after paying a 14 cent dividend.

Australian Shares (cont)



This chart shows market capitalisation segmental performance relative to the ASX 300 Index. Please note the ASX Emerging Companies Index, as represented by Micro Caps in this chart has less than 1 year's performance history.

This chart shows GICs Sector performance relative to the ASX 300 Index, over the past 1 month, 1 quarter and 1 year time periods. GICs Sector weightings for the ASX 300 Index, as at 31 May 2010 were as follows: Materials 25%; Industrials 7%; Consumer Discretionary 4%; Consumer Staples 9%; IT 1%; Telecommunication Services 4%; Financials ex-AREIT 33%; Property 6%; Energy 7%; Utilities 1%; Healthcare 4%.



**International Shares**

Zenith Benchmarks	Index	Past		3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date	
		1 Mth	Qtr					
International Shares in A\$	MSCI World ExAu Unhedged A\$	-2.12	-5.50	-4.03	-12.44	-3.69	-1.41	-5.10
	MSCI World A\$	-0.53	-10.25	-8.90	-14.74	-6.48	-6.01	-4.32
	MSCI Small Cap World ExAus	-3.36	-7.77	0.63	-11.01	-3.90	-2.64	-0.82
International Shares - Regional in A\$	MSCI North America	-1.08	-13.44	-5.72	-13.78	-7.22	-7.52	-2.73
	MSCI Asia	1.57	-8.23	-6.14	-12.13	-2.95	-7.05	1.58
	MSCI AC Asia ex-Japan	2.15	-5.03	4.81	-7.84	4.34	-5.56	2.68
	MSCI China	0.49	-8.24	-2.01	-9.68	11.75	-8.34	-2.85
	MSCI Europe	-0.47	-4.68	-13.20	-17.02	-5.83	-2.88	-8.68
	MSCI Emerging Markets	1.32	-5.84	5.88	-7.12	5.07	-4.07	1.63
	MSCI India	1.84	-7.54	9.15	-4.11	10.11	-10.34	3.76
	MSCI Japan	0.97	-11.45	-15.59	-15.82	-7.85	-8.61	0.38
International Shares - Hedged	MSCI World exAu Local Currency	-3.44	-2.17	2.32	-10.02	-1.06	2.14	-4.93
International Shares - Gold Shares in A\$	FTSE Gold Mines	14.74	-3.53	18.52	9.01	9.25	-6.83	16.68
International Shares - Global Resources in A\$	HSBC Global Mining	2.17	-8.21	8.35	-6.40	9.56	-2.92	-2.93

**Summary of Statistics:**

- **International Shares (ex-Australia)** lost 2.12% in August on an unhedged basis, and lost 3.44% from a local currency perspective.
- The **FTSE Gold Mines Index**, which reflects gold mining stocks globally, jumped an impressive 14.74% for the month.
- On a **Regional** basis, Asia (ex-Japan) had a turnaround to lead the pack, returning 2.15% for the month. North American stocks trailed the rest of the world, losing 1.08%.

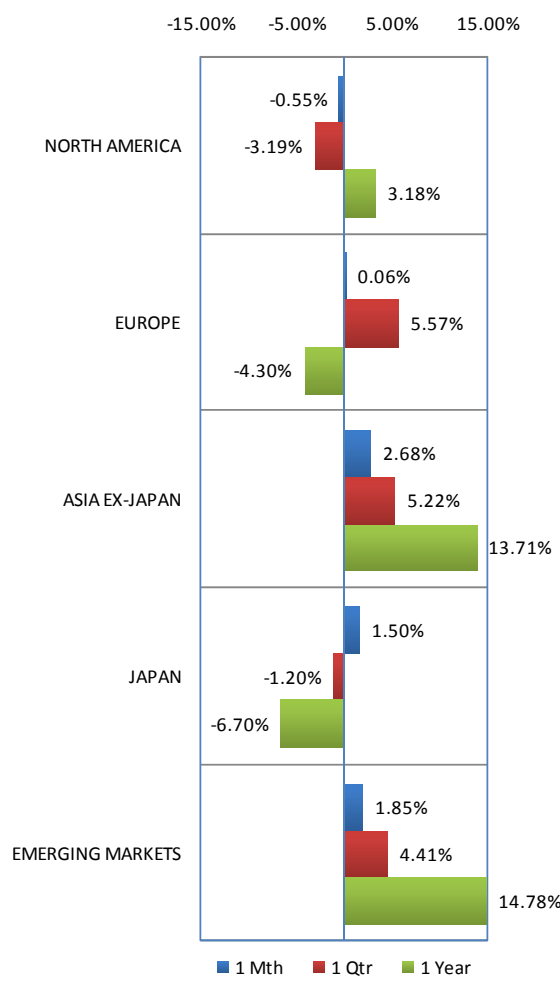
**Commentary:**

Global equities suffered a jittery month on the back of mixed earnings results and pessimistic economic news, especially in the US where the Dow Jones index posted two weeks of straight losses. Fears of a long and prolonged recovery are prevalent. European equity markets are also experiencing a withdrawal by retail investors, with funds flowing to emerging market economies and bond markets.

The US market took a hit mid August which erased the year's gains, particularly tech stocks, dragging the Dow Jones Industrial index down 2.86% over the month. Networking giant, Cisco, was one of the hardest hit with a 9.6% drop in a single session. Cisco Chief Executive, John Chambers, attributed the poor results to concerns that the economy was facing "unusual uncertainty", resulting in lower forecasted tech spending.

The FTSE Gold Mines Index had a remarkable turnaround from July's 13.31% loss, posting a 14.74% gain. HSBC's Global Mining Index continued to gain steadily with a 2.17% rise.

**REGIONAL PERFORMANCE RELATIVE TO MSCI WORLD INDEX IN UNHEDGED \$A TERMS**



This chart shows Regional performance relative to the MSCI World Index in Unhedged \$A terms, over 1 month, 1 quarter and 1 year time periods. Regional weightings for the MSCI World Index, as at 31 May 2010 were as follows: North America 58%; Europe 29%; Asia ex-Japan 2%; Japan 11%. Note Emerging Markets is not part of the index.

**Property & Infrastructure**

Zenith Benchmarks	Index	1 Mth	Past Qtr	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr To Date	Cal Yr to Date
Australian Listed Property	S&P/ASX 300 Property	3.52	3.59	5.97	-23.85	-8.22	4.66	1.36
Global Listed Property - Hedged in A\$	FTSE E/N Dev	-0.22	4.28	12.37	-13.52	-8.35	7.05	3.23
Global Listed Infrastructure - Hedged in A\$	UBS Global Infra. & Utilities	0.14	5.31	13.23	-4.89	4.89	5.18	1.52
Global EM Listed Infrastructure - Hedged in A\$	UBS EM Infra. & Utilities	1.03	0.07	6.75	-3.20	9.12	-0.49	1.40

**Summary of Statistics:**

- In August **Australian Listed Property** (3.52%) outperformed **Global Listed Property's** 0.22% decrease.
- **Global Listed Infrastructure** returned 0.14%, underperforming **Global Emerging Markets Listed Infrastructure** which put on 1.03% for the month.

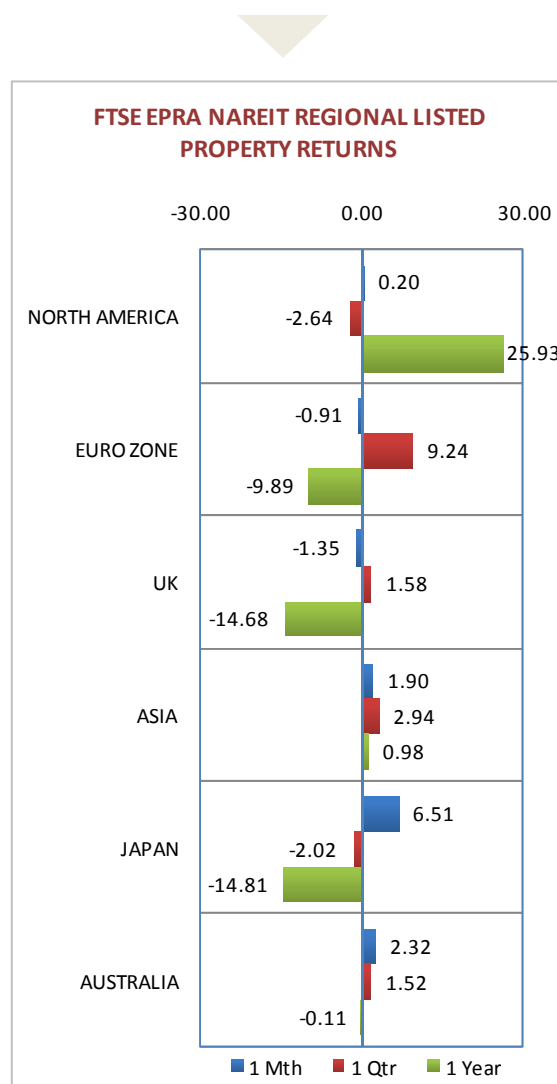
**Commentary:**

The S&P/ASX 300 Property Index built on July's gains with a 3.52% rise over August, outperforming the global property sector considerably, which had a negative return of 0.22%.

In company specific news, Mirvac Group (MGR) announced a dramatic turnaround with a \$234.7 million profit, compared to the \$1.08 billion loss in the year prior. Management citing its decisions to focus on large-scale residential developments and management of investment grade assets were responsible for the result.

CFS Property Trust (CFX) also delivered a strong full year's earnings figure of \$315 million, compared to a \$366.9 million loss in the previous financial year. The result was predominantly attributed to property and derivatives revaluations.

This chart shows Regional performance relative to the FTSE EPRA/NAREIT Index, over 1 month, 1 quarter and 1 year time periods. Regional weightings for the FTSE Index, as at 31 May 2010 were as follows: North America 46%; Europe ex-UK 10%; UK 5%; Asia ex-Japan 20%; Japan 10%; Australia 9%.



**Author:**

**Sam Shields**

Investment Analyst

Zenith Investment Partners Pty Ltd

☎ (03) 9642 3320 ✉ [sam.shields@zenithpartners.com.au](mailto:sam.shields@zenithpartners.com.au)

**Datasource: Bloomberg**

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