Zenith Monthly Market Report (31 July 2010)

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	4.88	4.88	0.00%	3.38	1.50%
	10 Year Bond	5.19	5.11	0.08%	5.57	0.46%
Australian Shares	All Ords	4507.40	4324.80	4.05%	4249.50	5.72%
	S&P/ASX 200	4493.50	4301.50	4.27%	4244.00	5.55%
Regional Shares	Dow Jones Industrials (US)	10465.94	9774.02	6.61%	9171.61	12.37%
	S&P 500 (US)	1101.60	1030.71	6.44%	987.48	10.36%
	FTSE 100 (UK)	5258.02	4916.87	6.49%	4608.36	12.36%
	TOPIX (Japan)	849.50	841.42	0.95%	950.26	-11.86%
	Hang Seng (Hong Kong)	21029.81	20128.99	4.28%	20573.33	2.17%
Property	ASX 300 A-REITS Index	840.70	831.80	1.06%	756.10	10.06%
	US$ Gold Price	1181.00	1242.25	-5.19%	954.00	19.22%
	US$ Oil Price – W Texas Crude	78.95	75.63	4.21%	69.45	12.03%
	US$ CRB Spot Commodity Index	435.23	418.89	3.75%	371.62	14.62%
Exchange Rates	AUD / USD	0.9042	0.8467	6.36%	0.8359	7.55%
	AUD / EUR	0.6927	0.6908	0.27%	0.5862	15.37%
	AUD / GBP	0.5764	0.5658	1.83%	0.5001	13.24%
	AUD / JPY	78.18	75.01	4.05%	79.14	-1.23%
	TWI	69.40	67.30	3.03%	65.70	5.33%
Volatility	VIX Index	23.50	34.54	-46.98%	25.92	-10.30%

Key Points:

- In July the Australian Dollar (AUD) appreciated against the USD (+6.36%), the Euro (+0.27%), the Pound (+1.83%) and the Yen (+4.05%). On a trade weighted basis the AUD finished the month 3.03% higher.
- Australian shares had gains of 4.48% in July as measured by the S&P/ASX 300 Index. Micro and Small caps led with 7.35% and 5.21% respectively, while the Midcaps (+4.81%) and the ASX Top 50 (+4.36%) also enjoyed solid gains.
- Global equity markets strengthened slightly by 0.73% in July on an $A unhedged basis, as measured by MSCI World Index. Europe (+4.17%) was the best performing region, whilst India shed its June gains with a slip of (-6.02%). In local currency terms, global equity markets rose by 5.78%.
- The Gold price lost 5.19% in July, trading at $US1242 at month's end. Commodities finished up 3.75% as per the CRB Spot Commodity Index.
- After three months of increases in the VIX Index, implied volatility declined by 46.98% in July.
- With CPI data falling below expectations at an increase of 0.6%, the RBA has retained the overnight cash rate at 4.5%. With the mortgage rates restored to "average" levels it is unlikely we will see another rate rise until later in the year.

Cash, Fixed Interest & Credit

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 Cash	UBSA Bank Bill	0.41	1.18	4.04	5.52	5.76	0.41	2.57
Australian Bonds	UBSA Australia Composite All Maturities	0.26	3.30	7.80	7.52	6.02	0.26	5.17
International Bonds	Barclays Global Aggregate (USD Hedged)	0.82	2.52	7.13	6.49	5.14	0.82	4.84

Summary of Statistics:

- **Australian Cash** returned 0.41% in July, returning 4.04% for the last 12 months.
- **Australian Bonds** rose marginally by 0.26% in July, as measured by the UBS Composite All Maturities Index. Australian 10 year government bonds are yielding 5.19% in comparison to 5.11% last month and 5.57% one year ago.
- **International Bonds** rose 0.82% in July, as measured by the Barclays Global Aggregate (Hedged $USD) Index. 10 year government bond yields dropped slightly in the US (from 2.95% to 2.91 %), Japan (1.074% to 1.069%) and remained close to flat in the UK (3.32% to 3.33%)
- In the **Global Corporate Debt Market** high yield and emerging markets debt both outperformed investment grade.

Commentary:

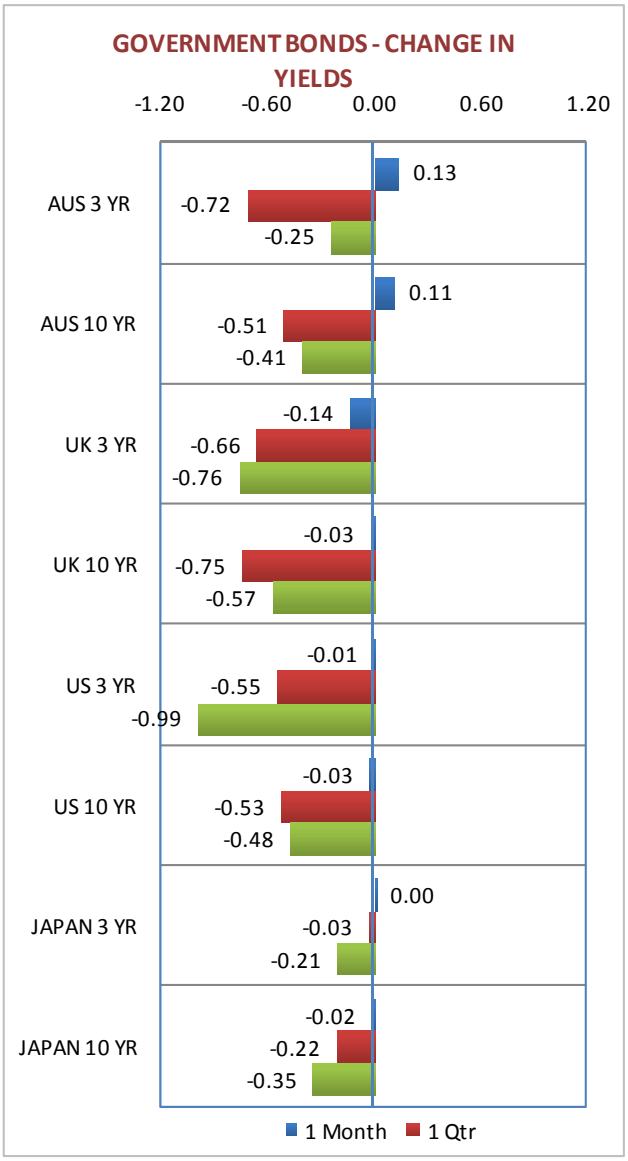
The domestic bond market ended the month with slightly higher yields, spurred by excess demand, positive economic news and leads from the US and Euro Zone. Early July saw retail sales figures increasing less than expected and an unemployment rate drop down to 5.1%. CPI figures released near the end of the month were below the consensus expectation of +0.8%, at +0.6%, bringing the mean CPI back into the target 2-3% band at 2.7% year-on-year. The RBA has left the cash rate unadjusted and is expected to leave it at 4.50% until later in the year. Meanwhile, across the Tasman, the RBNZ increased their official cash rate by 25 basis points to 3.0%.

Higher yield and emerging market spreads tightened the most over the July period, reflecting a boost in confidence in riskier debt instruments.

Offshore, the big news for month came predominantly from Europe where amendments to the Basel III reforms which soften capital and liquidity requirements and prolong the implementation deadlines were well received, along with positive earnings results from European banks Deutsche Bank and UBS.

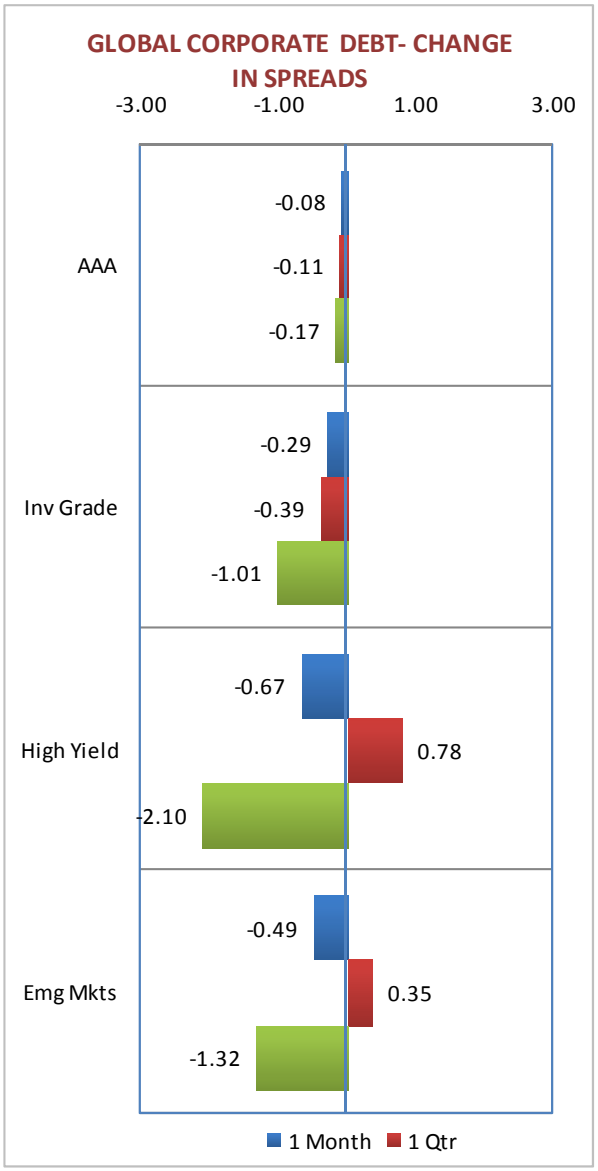
The highly anticipated stress test results of 91 European banks were also announced last month restoring confidence in Euro Zone debt and equity markets, despite many analysts' concerns that there tests were not thorough enough. Five regional Spanish banks, one Greek bank and one state-owned German lender failed the tests. European banks were also encouraged to disclose their exposure to sovereign debt, with all but 7 banks participating. Germany's Deutsche Bank and Deutsche Postbank AG refrained initially, however released their figures after facing severe criticism.

Cash, Fixed Interest & Credit (cont)



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 and vice versa. Country weightings for the Barclays Global Aggregate Index, as at 31 May 2010 were as follows: Aus 1%; UK 6%; US 26%; Japan 33%.

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.



Australian Shares

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 Shares	S&P/ASX 300	4.48	-5.96	10.04	-6.05	4.86	4.48	-6.06
Australian Shares - Market Cap	ASX 50 Leaders	4.36	-5.79	10.78	-4.41	5.43	4.36	-5.52
	ASX Midcap 50	4.81	-6.38	6.69	-10.37	2.76	4.81	-8.22
	ASX Small Ordinaries	5.21	-7.00	7.30	-12.43	3.02	5.21	-8.44
	S&P/ASX Emerging Companies	7.35	-7.97				7.35	-10.20
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	4.92	-2.36	11.36	-0.66	12.85	4.92	-4.87
	S&P/ASX 300 Industrials	7.15	-11.59	7.94	-15.81	-2.50	7.15	-13.16
	S&P/ASX 300 Consumer Discretionary	3.94	-8.30	9.97	-13.95	-2.58	3.94	-6.06
	S&P/ASX 300 Consumer Staples	1.76	1.31	12.06	4.52	11.50	1.76	-1.03
	S&P/ASX 300 Energy	3.98	-6.14	-2.95	4.82	12.78	3.98	-8.69
	S&P/ASX 300 Healthcare	1.00	-3.27	6.99	0.90	10.11	1.00	-5.65
	S&P/ASX 300 Information Technologies	-2.77	-12.86	4.27	-3.05	8.88	-2.77	-9.35
	S&P/ASX 300 Telecommunication	-0.55	0.77	0.10	-3.06	0.29	-0.55	-1.46
	S&P/ASX 300 Financials ex Property	6.45	-9.38	17.03	-3.76	6.47	6.45	-5.82
	S&P/ASX 300 Utilities	3.11	-3.10	5.42	-11.28	3.07	3.11	-1.02
	S&P/ASX 300 Property	1.10	-4.20	18.87	-22.81	-8.54	1.10	-2.09

Summary of Statistics:

- All sectors enjoyed moderate rises for July with exception to Information Technologies and Telecommunications. Leading the pack were Industrials (+7.15%) and Financials (+6.45%)
- The S&P/ASX Emerging Companies index enjoyed the largest gain with 7.35%, followed by the ASX Small Ordinaries with 5.21%.

Commentary:

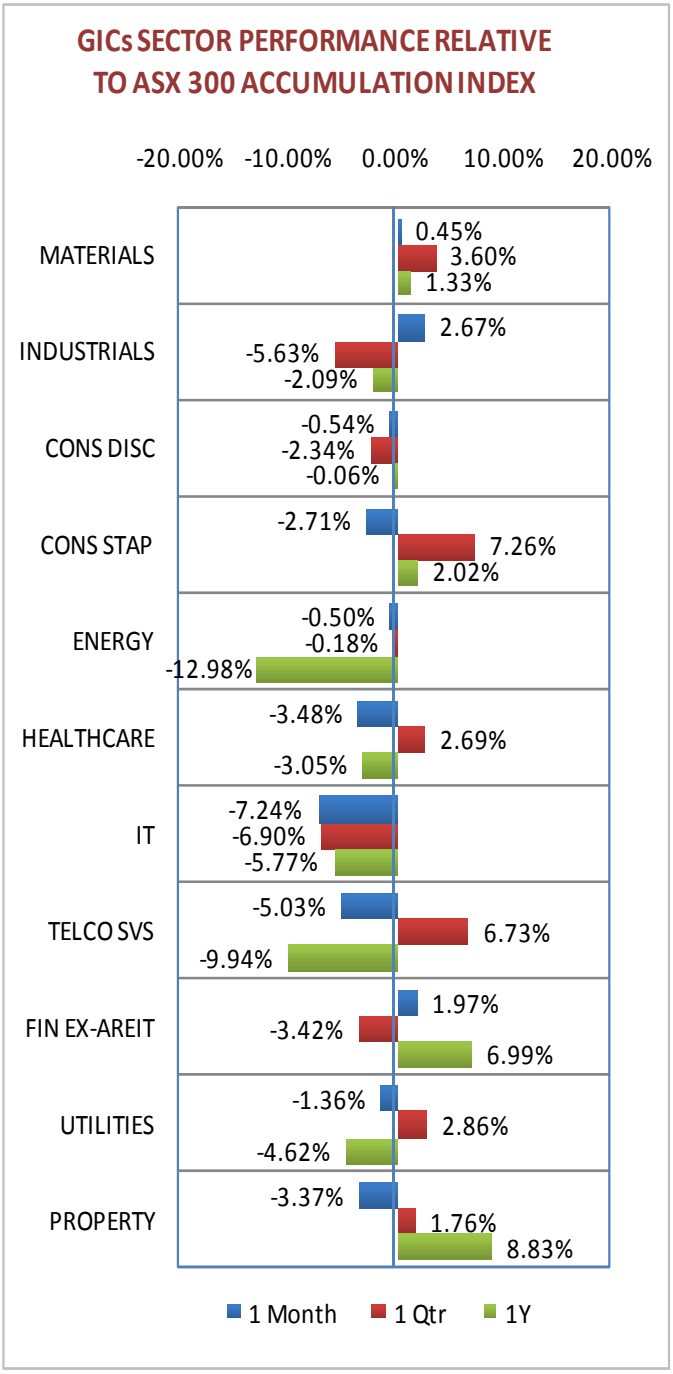
Following the Australian market's decline in June and leading up to the August reporting period, the ASX experienced a steady recovery. The Financial sector had a positive month on the back of the European Stress Test results while the materials sector gained on the grounds of a compromise with the Labor Government on the RSPT in the form of the new Mineral Resources Rent tax. The Australian market is still down 6.06% for 2010.

The rally in the ASX closely tracked the S&P500 in the US, where second quarter earnings results saw 311 companies reporting above expectations.

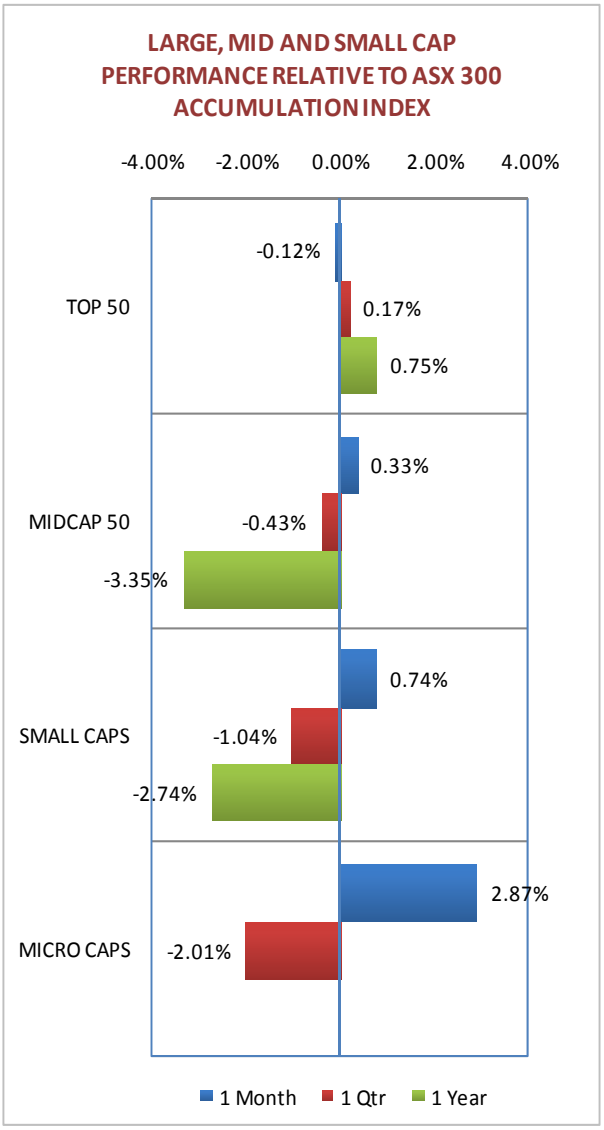
The higher performance in the smaller cap stocks reflects the market as a whole with financial and resource sectors the big contributors. Several large contract announcements and merger and acquisition activity also played a role in the abnormally large returns, with target companies and their peers experiencing increases in share prices.

The biggest movers for the month were Intoll Group (ITO) with an overnight jump of 27% on the news of the Canadian Pension Plan Investment Board's $3.47 billion bid for the toll road company and Linc Energy (LNC), after speculation the company was in negotiations to sell its Galilee coal tenement for $900 million to India's Adani Group. The proposal pushed the share price up by 58% from $1.01 to $1.60.

Australian Shares (cont)



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%.



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.

International Shares

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
International Shares in A$	MSCI World Ex Au Unhedged A$	0.73	-2.80	0.53	-10.28	-3.28	0.73	-3.05
	MSCI World A$	0.87	-2.93	0.87	-10.11	-2.53	0.87	-3.16
	MSCI Small Cap World Ex Aus	7.54	-7.37	18.26	-7.74	0.53	7.54	3.32
International Shares - Regional in A$	MSCI North America	-0.19	-4.23	3.79	-8.50	-3.45	-0.19	-1.01
	MSCI Asia	-2.31	-1.35	-1.78	-8.68	1.29	-2.31	0.68
	MSCI AC Asia ex-Japan	-1.30	1.34	4.99	-4.11	7.38	-1.30	1.20
	MSCI China	-2.62	2.72	-4.10	-2.85	16.19	-2.62	-2.66
	MSCI Europe	4.17	0.08	-1.93	-12.83	-1.72	4.17	-7.62
	MSCI Emerging Markets	1.08	0.85	10.13	-3.35	9.13	1.08	0.99
	MSCI India	-6.02	-0.61	12.14	-0.74	14.13	-6.02	2.58
	MSCI Japan	-3.37	-4.09	-8.10	-12.54	-3.10	-3.37	0.10
International Shares - Hedged	MSCI World ex Au Local Currency *	5.78	-6.35	9.79	-9.01	-0.36	5.78	-1.55
International Shares - Gold Shares in A$	FTSE Gold Mines	-13.31	-2.22	7.92	7.88	11.51	-13.31	2.38
International Shares - Global Resources in A$	HSBC Global Mining	1.26	-4.39	11.44	-3.48	14.33	1.26	-4.52

Summary of Statistics:

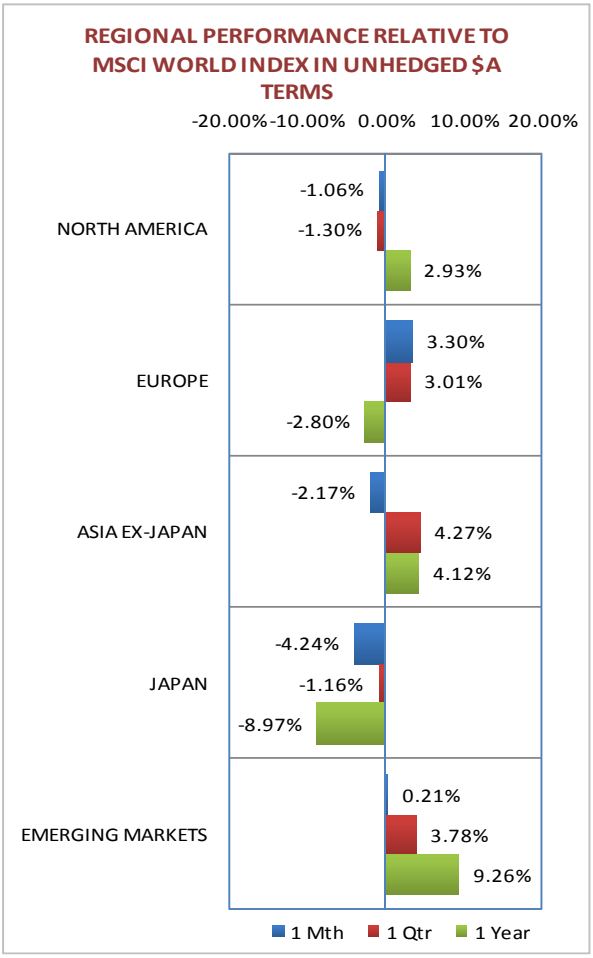
- **International Shares (ex-Australia)** rose 0.73% in July on an unhedged basis, returning 5.78% in local currency terms.
- **Small Caps** significantly outperformed the broader market with an increase of 7.54%.
- On a **Regional** basis, Europe (+4.17%) was the best performing region, while India shed its previous month's gains with a 6.02% decline.

Commentary:

After a weak month in June, the MSCI world equity index had a mild turnaround thanks to positive second quarter earnings results out of the US, in addition to the increasing confidence in the Euro Zone. The capping of BP's oil leak in the Gulf of Mexico was reflected across the energy sector with a 7.1% gain for the month. The financial sector lead the charge globally with an 8.2% increase attributable to the European bank stress tests and favourable liquidity and capital requirements proposed for the Basel III bank reforms.

The major offshore markets mostly rose across the board. The Dow Jones Industrials (+6.61%), London's FTSE 100 (+6.49%) and Hong Kong's Hang Seng (+4.28%) indices all outperformed the domestic market, however due to the strengthening of the Australian dollar, only European and Emerging Markets indices had positive returns in $A terms.

The MSCI World Small Cap Index recovered with a 7.54%, and HSBC's Global Mining Index had a 1.26% gain in local 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.

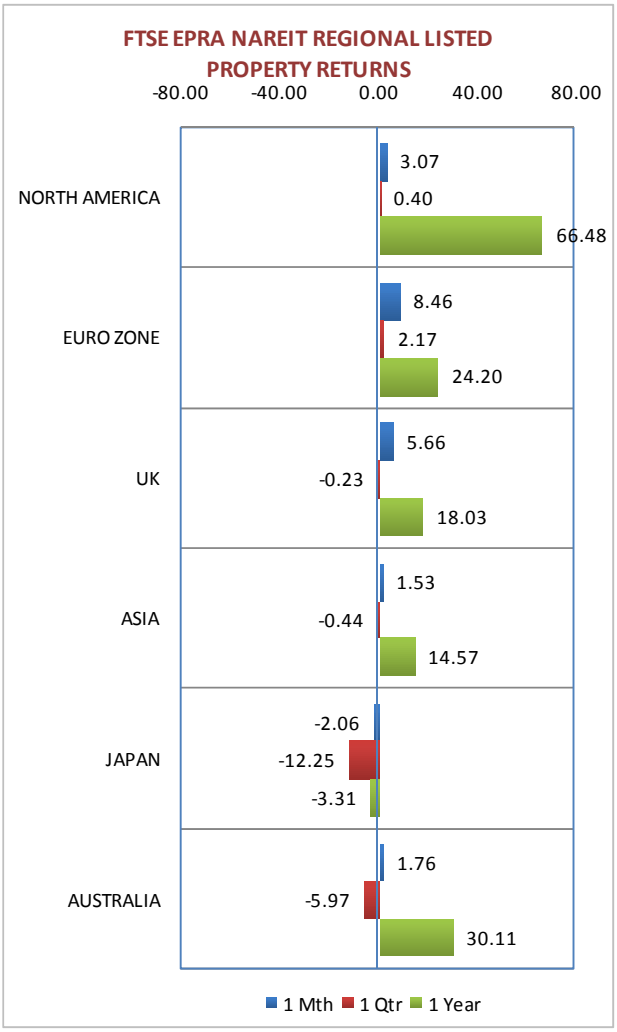
Property & Infrastructure

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	1.10	-4.20	18.87	-22.81	-8.54	1.10	-2.09
Global Listed Property - Hedged in A$	FTSE E/N Dev	7.28	-3.14	20.36	-13.46	-8.31	7.28	3.46
Global Listed Infrastructure - Hedged in A$	UBS Global Infra. & Utilities	5.03	-0.59	16.51	-4.64	5.10	5.03	1.37
Global EM Listed Infrastructure - Hedged in A$	UBS EM Infra. & Utilities	-1.50	1.88	2.24	-3.10	8.90	-1.50	0.37

Summary of Statistics:

- In July **Australian Listed Property** (+1.10%) underperformed **Global Listed Property's** 7.28% increase.
- **Global Listed Infrastructure** returned 5.03%, underperforming **Global Emerging Markets Listed Infrastructure** which lost 1.50% for the month.

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%.



Commentary:

In domestic terms the S&P/ASX 300 Property Index put on a 1.10% gain for the month of July, underperforming the global property sector, and S&P/ASX 200 equity index.

Once again, the FTSE EPRA/NAREIT Developed Market Index posted a strong result and far outperformed the domestic S&P/ASX 300 Property index as well as the broader equity market, adding +7.28% over the course of July. The Euro Zone and UK were the biggest contributors by region adding 8.46% and 5.66% respectively.

In company-specific news the ailing Centro Property has completed financing arrangements of nearly $A3.03 billion of debt in its US operations as they continue to restructure. The announcement leading to a moderate increase in the share prices of both Centro Properties Group (CNP) and Centro Retail Trust (CER).

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Datasource: Bloomberg

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