Zenith Monthly Market Report (30 June 2011)

Market Indicators

Market	Indicator	End of Month	Previous Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	4.75	4.75	0.00%	4.50	0.25%
	3 Month BBSW	4.89	4.96	-0.06%	4.88	0.01%
	10 Year Bond	5.22	5.21	0.01%	5.11	0.11%
Australian Shares	All Ords	4659.80	4788.90	-2.77%	4324.80	7.19%
	S&P/ASX 200	4608.00	4708.30	-2.18%	4301.50	6.65%
Regional Shares	Dow Jones Industrials (US)	12414.34	12569.79	-1.25%	9774.02	21.27%
	S&P 500 (US)	1320.64	1345.20	-1.86%	1030.71	21.95%
	FTSE 100 (UK)	5945.71	5989.99	-0.74%	4916.87	17.30%
	TOPIX (Japan)	849.22	838.48	1.26%	841.42	0.92%
	Hang Seng (Hong Kong)	22398.10	23684.13	-5.74%	20128.99	10.13%
Property	ASX 300 A-REITS Index	831.30	850.50	-2.31%	831.80	-0.06%
	US$ Gold Price	1500.35	1535.80	-2.36%	1242.25	17.20%
	US$ Oil Price – W Texas Crude	95.42	102.70	-7.63%	75.63	20.74%
	US$ CRB Spot Commodity Index	550.30	564.53	-2.59%	418.89	23.88%
Exchange Rates	AUD / USD	1.0710	1.0655	0.51%	0.8467	20.94%
	AUD / EUR	0.7380	0.7415	-0.47%	0.6908	6.40%
	AUD / GBP	0.6666	0.6483	2.74%	0.5658	15.11%
	AUD / JPY	86.28	86.66	-0.44%	75.01	13.07%
	TWI	77.80	77.80	0.00%	67.30	13.50%
Volatility	VIX Index	16.52	15.45	1.07%	34.54	-18.02%

Key Points:

- Almost all markets experienced losses in June with a few managing to buck the trend.
- The Australian Dollar (AUD) edged up against the greenback by 0.51% and reached a 26-year high against the pound, rising 2.74% in June. However, the AUD lost similar ground against the euro and yen.
- The RBA Board left the cash rate unchanged (4.75% on 7th June & and on 5th July) as expected. However, the 3 Month BBSW ended the month lower by 7bps.
- Australian markets experienced further losses in June amid concerns over the European sovereign debt issues and lacklustre Chinese economic growth. The S&P/ASX 300 index shed 1.98% and fared better than the broader market. All Australian sectors experienced losses with energy (-8.65%) and materials (-2.38%) among the biggest fallers.
- Global equities lost 2.07% for the month on an unhedged basis. In local currency terms, North American and European markets fell 2.32% and 2.38% respectively while Asia (ex Japan) shed 2.78%. However, Japan bucked the trend with a 0.99% gain.
- West Texas Crude suffered further losses in June on the back of the IEA's decision to supply 60 million barrels to offset the decline in Libyan supply. The price of crude oil continued to tumble 7.63% to settle at $95.42.
- The precious metal was in demand during the first half of June but with European sovereign debt issues waning towards month end, gold ended 2.36% lower to close at US$1500.35. The CRB commodity spot index also saw a decline of 2.59%.
- Volatility rose by 1.07% in June, as measured by the VIX Index.

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	0.40	1.23	4.98	4.78	5.62	4.98	2.47
Australian Bonds	UBSA Australia Composite All Maturities	0.55	2.33	5.55	8.05	6.50	5.55	4.42
International Bonds	Barclays Global Aggregate (USD Hedged)	-0.20	1.68	2.08	5.58	5.31	2.08	1.48

Summary of Statistics:

- **Australian Cash** returned 0.40% in June and returned 4.98% over the last year.
- **Australian Bonds** returned 0.55%, compared with a return of 5.55% over the past year as reflected by the UBS Composite All Maturities Index.
- **International Bond prices** fell 0.2%, as measured by the Barclays Global Aggregate (Hedged $USD) Index. Please note that the AUD hedged returns would be higher based on current interest rate differentials between Australia and the US.
- In the **Global Corporate Debt Market**, both investment grade and high yield debt underperformed with spreads rising by 0.21% and 0.26% respectively. However, emerging market spreads declined by 0.08%.

Commentary:

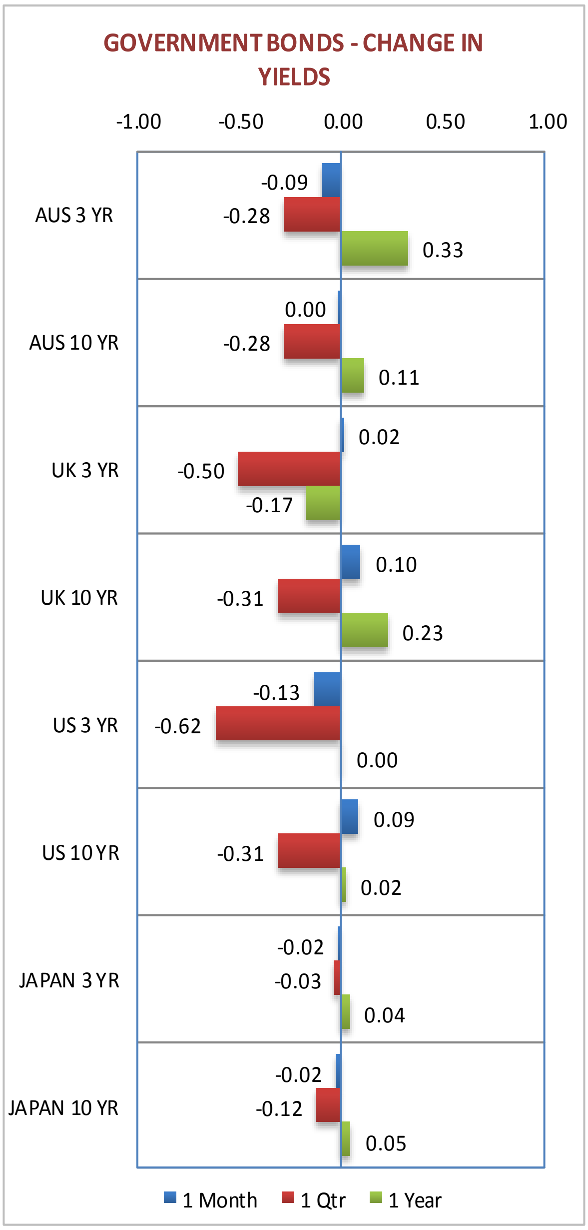
The fear and possibility of Greece's default sent investors fleeing to the bond markets as a flight to safety. From the beginning of June, yields constantly fell and bond prices rallied until yields sharply reversed in the last week as Greek sovereign debt issues dissipated once again. High yield debt was also in favour as investors became less risk averse following the stabilisation of Greece's debt situation. European 10-year bonds dipped below 3% during the month before rising toward the month end.

On the domestic front, there were no surprises from the RBA meeting in July as the cash rate was left unchanged at 4.75%. Economists had expected no change and the RBA justified a mildly restrictive stance on monetary policy by saying that inflation was in the bottom of the target range and they expect a gradual increase over time. However, an element of surprise in the statement was a revised slowdown in growth for the nation in 2011.

3-year Australian bond prices rallied late in June while the 10-year bond yield remained unchanged after falling below 5% late in the month. The Australian economy shrank by 1.2% (q/q) - the worst growth in 20 years. This was broadly expected as the impact of the Queensland flooding during the summer produced heavy losses for iron ore and coal exporters. Unemployment figures were also a disappointment as economists expected job growth of 25,000 in May compared to the actual 4,800 increase. On a brighter note, retail sales data showed a surprise improvement in consumer spending in April, rebounding from March's 0.3% decline.

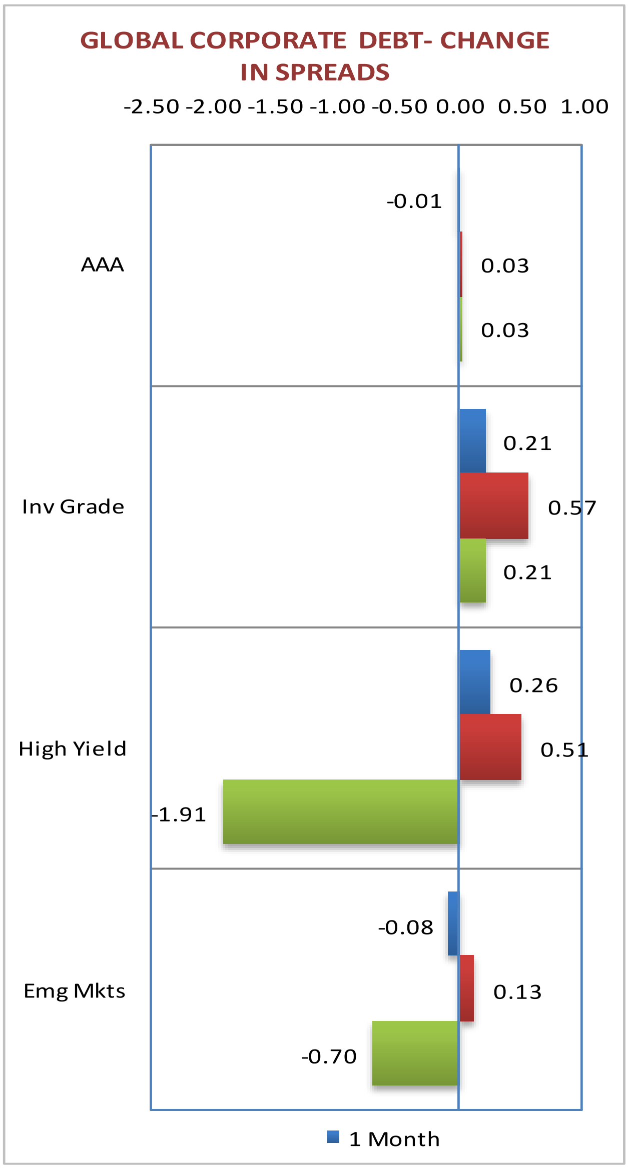
US economic data raised concerns about a recovery in the economy. Labour market conditions were weak with non-farm payrolls rising by 54,000 compared to an expected 161,000 in May. A slowdown in manufacturing also put the brakes on economic growth, as reflected by both an unexpected drop in the Empire State Manufacturing Index and the Philly Fed manufacturing Index in June. A rise in existing home sales added selling pressure to the housing market as was broadly expected. By month end, 3-year US bond yields fell by 0.13% and 10-year US bond yields actually ended higher by 0.09%. It is expected that interest rate hikes are likely to be pushed out further into the future based on sluggish growth.

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. 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	-1.98	-4.26	11.90	0.26	2.37	11.90	-1.27
Australian Shares - Market Cap	ASX 50 Leaders	-1.50	-3.61	11.17	1.12	2.87	11.17	0.21
	ASX Midcap 50	-2.83	-4.66	14.12	-2.40	0.31	14.12	-3.95
	ASX Small Ordinaries	-5.09	-9.31	16.41	-2.59	1.21	16.41	-10.39
	S&P/ASX Emerging Companies	-8.36	-14.60	31.71			31.71	-12.41
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	-2.38	-5.91	21.26	-1.71	8.32	21.26	-4.05
	S&P/ASX 300 Industrials	-2.60	-5.19	16.94	-2.41	-2.48	16.94	-3.32
	S&P/ASX 300 Consumer Discretionary	-3.05	-7.65	1.19	0.28	-4.23	1.19	-4.58
	S&P/ASX 300 Consumer Staples	0.62	2.13	13.38	9.87	10.65	13.38	5.32
	S&P/ASX 300 Energy	-8.65	-11.45	10.13	-6.02	7.84	10.13	-6.18
	S&P/ASX 300 Healthcare	-1.89	-4.34	8.56	4.12	7.57	8.56	-4.04
	S&P/ASX 300 Information Technologies	-5.64	-8.84	-12.95	-0.26	2.91	-12.95	-15.57
	S&P/ASX 300 Telecommunication	-4.13	3.12	3.15	-1.35	6.34	3.15	10.16
	S&P/ASX 300 Financials ex Property	-0.05	-2.65	13.18	8.95	3.27	13.18	2.55
	S&P/ASX 300 Utilities	1.91	4.71	14.60	0.73	1.14	14.60	2.41
	S&P/ASX 300 Property	-0.77	-0.49	5.87	-9.65	-10.32	5.87	3.23

Summary of Statistics:

- **Australian shares** declined for the third consecutive month. The S&P/ASX 300 lost 1.98% in June, slightly outperforming the MSCI World (ex-Australia) index on an unhedged basis.
- Performance across **sectors** were poor - Energy (-8.65%), Telecommunications (-5.64%), Consumer Discretionary (-3.05%), and Materials (-2.38%).
- On a **market cap basis**, all indices were in the red with the ASX Midcap 50 producing a monthly return of -2.83%.

Commentary:

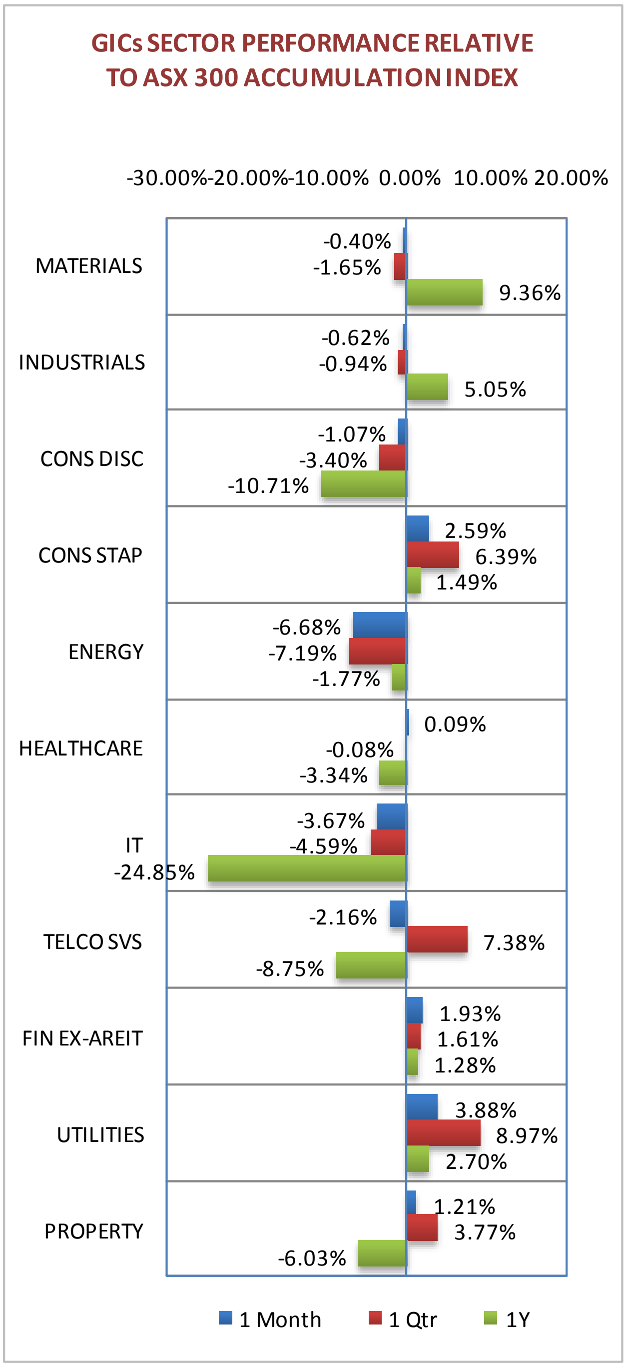
The downtrend in the Australian market was mainly due to overall weak global economic sentiment surrounding Greece's worsening debt crisis and a 3-notch downgrade in its credit rating at the beginning of June by Moody's. US consumer spending growth was flat in May and Chinese manufacturing slowed for the third consecutive month. These negative factors were more than enough to produce a broad sell-off across global markets. As the month approached an end, sentiment improved as investors were relieved to hear that Greece had passed a legislation to implement a 5-year US$38.4 billion austerity plan.

Energy stocks were hit hard with the sector shedding 8.65% after Caltex shares were pushed down by 6.9% in one trading day after announcing first-half earnings could drop up by up to 39% on the back of a strong Australian dollar, high crude oil prices, refinery outages and narrowing refinery margins. The company also reported guidance well below analyst expectations. Woodside also suffered with a 12.2% decline in June after declaring a delay in the start-up of its Pluto LNG project, adding $900 million to the initial cost.

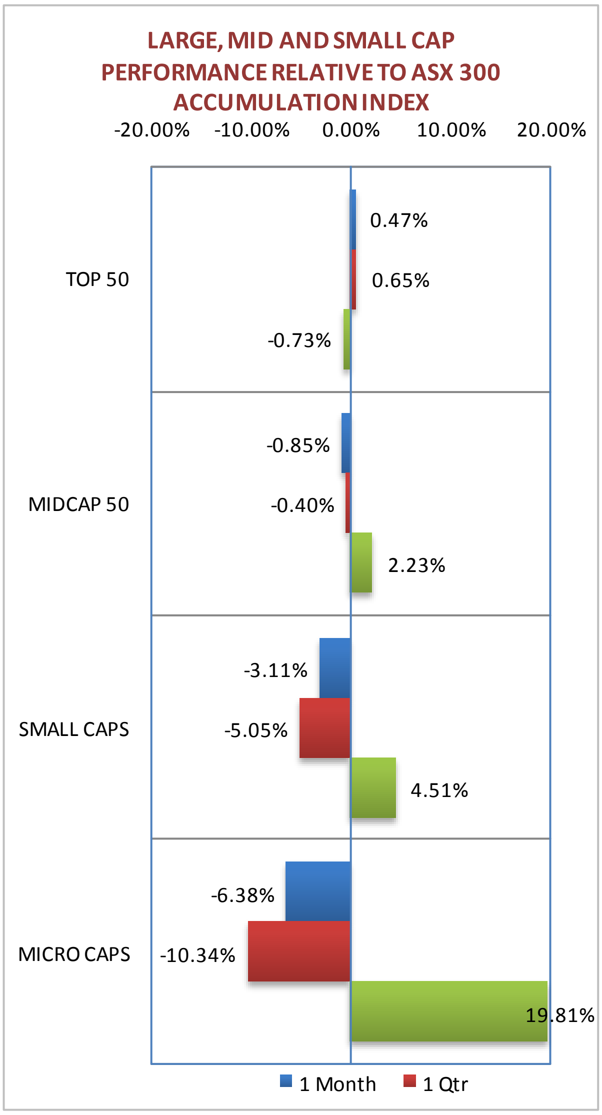
Telstra gave up the gains made in May despite reaching milestones in signing a definitive agreement with the Australian government to sell its copper lines to the NBN. It is expected that the handover of infrastructure will produce AUD$11 billion in compensation for the company.

The materials sector experienced a 2.38% dive, closely following the CRB Spot Commodity index. Rare earths play Lynas saw its shares fall by 16.5% in June after the company announced delays in being granted the pre-operating licence for its $230 million Malaysian plant. The company also continues to face pressure after conflicts erupted with the Malaysian government and protesters regarding environmental and public health concerns as a result of the waste by-products produced from operating the plant.

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$	-2.07	-2.91	2.66	-3.28	-5.15	2.66	0.87
	MSCI World A$	-2.05	-2.95	2.97	-3.13	-4.93	2.97	0.81
	MSCI Small Cap World Ex Aus	-2.64	-3.95	9.19	3.20	-2.98	9.19	1.14
International Shares - Regional in A$	MSCI North America	-2.32	-3.81	3.07	-1.22	-4.30	3.07	1.06
	MSCI Asia	-1.13	-3.33	-5.71	-2.14	-4.80	-5.71	-5.78
	MSCI AC Asia ex-Japan	-2.78	-3.40	-0.84	4.10	3.64	-0.84	-3.13
	MSCI China	-4.20	-5.24	-11.25	0.84	7.52	-11.25	-3.36
	MSCI Europe	-2.38	-1.05	7.31	-5.51	-5.17	7.31	4.41
	MSCI Emerging Markets	-2.00	-4.51	0.83	0.49	3.57	0.83	-3.42
	MSCI India	1.29	-6.83	-14.80	6.68	5.55	-14.80	-12.37
	MSCI Japan	0.99	-3.23	-10.84	-7.76	-10.54	-10.84	-8.81
International Shares - Hedged	MSCI World ex Au Local Currency *	-1.59	-0.49	22.28	0.04	0.49	22.28	3.07
International Shares - Gold Shares in A$	FTSE Gold Mines	-5.59	-9.78	-17.66	0.39	0.19	-17.66	-13.97
International Shares - Global Resources in A$	HSBC Global Mining	-2.75	-7.41	11.59	-4.88	5.42	11.59	-8.79

Summary of Statistics:

- **International Shares (ex-Australia)** made steep declines in June, tumbling 2.07% on an unhedged basis, but lost 1.59% from a local currency perspective.
- The **FTSE Gold Mines Index**, which reflects gold mining stocks globally, slipped 5.59% in Australian dollar terms.
- On a **regional basis**, China was the worse performer, diving 4.20%. North American and European markets fell similarly by 2.32% and 2.38% respectively.

Commentary:

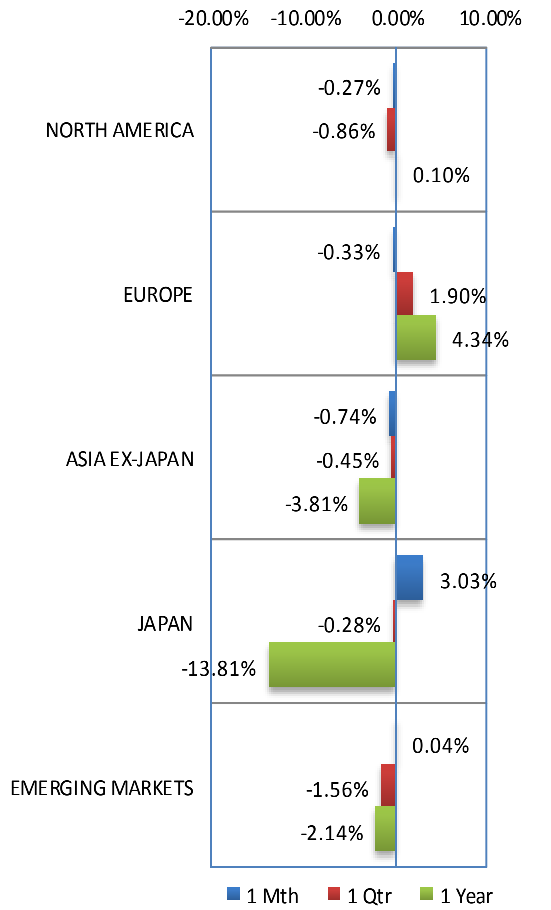
International equity markets tumbled in June, with the MSCI World Index (ex-Aust) Index giving up 2.07% on an unhedged basis.

Global equity markets saw a wide sell-off as investors were heavily focused on the continuing uncertainty over the European sovereign debt crisis for the large part of June. However, investor sentiment improved later in the month after Greece was saved by the Greek government's parliamentary support for the new austerity measures as a requirement by the EU to secure a bailout package. German and French banks had also extended their maturities by rolling over Greek debt in order to avoid Greece defaulting and prevent further contagion. European markets as measured by the MSCI Europe index fell 2.4% in June.

Weak US economic data released in June questioned the recovery of the US economy as the ISM Manufacturing Index plummeted in May to levels not seen since September 2009. Non-farm payrolls also increased slower than expected and the unemployment rate rose from 9.0% to 9.1%. Furthermore, the second round of quantitative easing officially came to an end in the last week of June and did not help US equity markets. The MSCI North America Index retreated 2.32%.

Around the region, Asian markets came under pressure from the effects of tightening monetary policy – with China raising the reserve requirement ratio by 50bp. Chinese manufacturing data showed a massive slump in growth for June – the slowest in over two years. The purchasing managers' index also fell more than forecast. Demand for commodities also slowed down as reflected by the fall in the CRB commodity spot index. The MSCI China Index dived 4.2%.

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	-0.77	-0.49	5.87	-9.65	-10.32	5.87	3.23
Global Listed Property - Hedged in A$	FTSE E/N Dev	-2.54	1.67	24.60	-3.51	-4.05	24.60	4.37
Global Listed Infrastructure - Hedged in A$	UBS Global Infra. & Utilities	-0.27	2.30	16.92	0.61	4.03	16.92	4.60
Global EM Listed Infrastructure - Hedged in A$	UBS EM Infra. & Utilities	-0.20	-3.93	-4.50	0.92	5.13	-4.50	0.20

Summary of Statistics:

- Australian Listed property, as measured by the S&P/ASX 300 Property Index, ended the June month lower by 0.77%, outperforming the FTSE EPRA/NAREIT Index, which lost 2.54%.
- Global Listed Infrastructure returned -0.27%, underperforming the Emerging Markets Listed Infrastructure Index, which returned -0.20%.

Commentary:

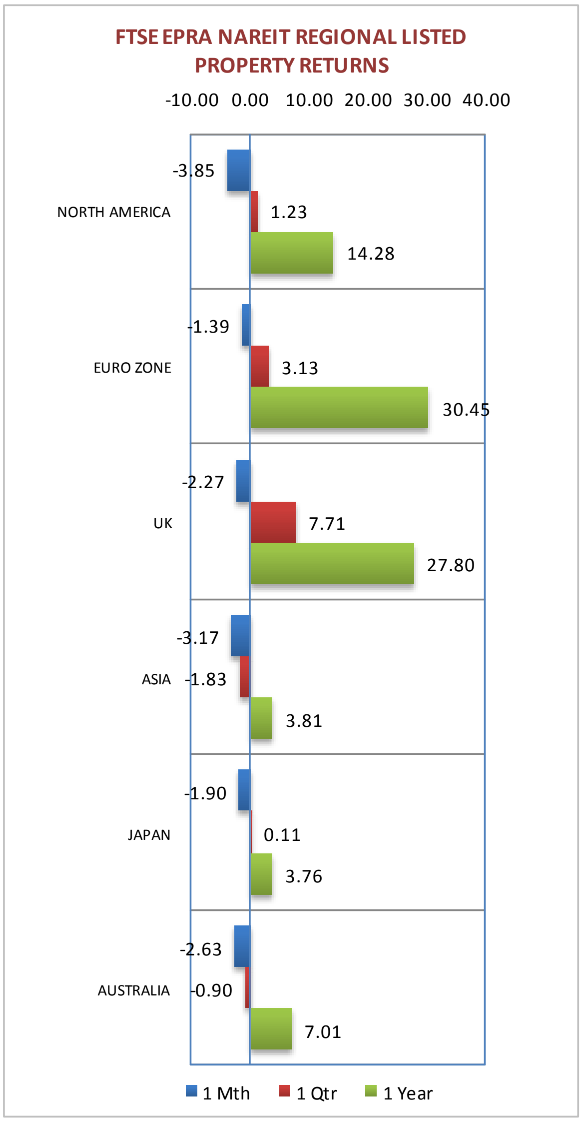
The S&P/ASX 300 Property Index was once again in negative territory, falling 0.77% following May's flat month. However, Australian property returns outperformed the FTSE EPRA/NAREIT Index by 1.77%.

In company specific news, Mirvac Group made an $80.8 million provision for its residential development project which includes 43 unsold apartments and undeveloped land at Tennyson Reach in Brisbane, Queensland, due to the January flooding. On an upbeat note, the company is currently negotiating the sale of its 50% owned Sydney office building to Singapore based K-REIT Asia for $150 million.

Diversified services company UGL has secured $400 million in new resource contracts which involves extensions with blue chip customers in the oil & gas, coal and alumina sectors. The company sees positive trading conditions across its resource businesses with a healthy level of tendering activities across the coal, iron ore, minerals and oil and gas sectors.

On the economic front, the change in the number of new building approvals fell sharply by 7.9% in May, which was more than what economists expected. New Home Sales were also weak as reported by the HIA, with a 0.2% drop in the number of newly constructed homes. It's clear the slowdown in the housing market has been hastened by the interest rate hike in November last year and a slowdown in economic activity resulting from the natural disasters during the summer.

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:
Christopher Huang
Data Analyst
Zenith Investment Partners Pty Ltd
☎ (03) 9642 3320 christopher.huang@zenithpartners.com.au

Data source: Bloomberg