

## 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	4.96	4.93	0.03%	4.83	0.13%
	10 Year Bond	5.21	5.44	-0.23%	5.38	-0.17%
Australian Shares	All Ords	4788.90	4899.00	-2.30%	4453.60	7.00%
	S&P/ASX 200	4708.30	4823.20	-2.44%	4429.70	5.92%
Regional Shares	Dow Jones Industrials (US)	12569.79	12810.54	-1.92%	10136.63	19.36%
	S&P 500 (US)	1345.20	1363.61	-1.37%	1089.41	19.02%
	FTSE 100 (UK)	5989.99	6069.90	-1.33%	5188.43	13.38%
	TOPIX (Japan)	838.48	851.85	-1.59%	880.46	-5.01%
	Hang Seng (Hong Kong)	23684.13	23720.81	-0.15%	19765.19	16.55%
Property	ASX 300 A-REITS Index	850.50	851.60	-0.13%	852.20	-0.20%
	US\$ Gold Price	1535.80	1563.70	-1.82%	1216.20	20.81%
	US\$ Oil Price – W Texas Crude	102.70	113.93	-10.93%	73.97	27.97%
	US\$ CRB Spot Commodity Index	564.53	569.61	-0.90%	424.86	24.74%
Exchange Rates	AUD / USD	1.0655	1.0971	-2.97%	0.8432	20.86%
	AUD / EUR	0.7415	0.7409	0.08%	0.6858	7.51%
	AUD / GBP	0.6483	0.6566	-1.27%	0.5803	10.49%
	AUD / JPY	86.66	89.06	-2.76%	76.83	11.34%
	TWI	77.80	78.90	-1.41%	67.50	13.24%
Volatility	VIX Index	15.45	14.75	0.70%	32.07	-16.62%

### Key Points:

- The Australian Dollar (AUD) lost ground against most major currencies in May despite trading above the US\$1.10 level at the beginning of the month. The AUD weakened against the USD (-2.97%) and made similar losses against the Yen (-2.76%) and the Pound (-1.27%).
- The RBA Board once again left the cash rate unchanged (4.75% on 3<sup>rd</sup> May and on 7<sup>th</sup> June) and hinted signs of a rate hike on the back of higher inflation forecasts in the May meeting. The 3 Month BBSW finished higher by 3bps.
- The Australian market underperformed relative to global equities, falling another 2.02% as reflected by the S&P/ASX 300. The finance ex-Property (-4.45%), IT (-3.64%) and consumer discretionary (-3.08%) sectors weighed down the market.
- Global markets ended the month higher by 0.70% on an unhedged basis. In Australian Dollar terms, China was the best performer, up 3.03% while Europe shed 0.69%.
- The price of crude oil fell sharply by 10.93%, giving up gains made in April after the CME raised its margin trading requirements by 25%. Crude spot price closed the month down at \$102.70.
- Gold bullion fell 1.82% over the month, closing at US\$1535.80.
- Volatility increased by 0.70% over the month, as measured by the VIX Index.

## 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	0.42	1.24	4.97	4.86	5.63	4.56	2.05
Australian Bonds	UBSA Australia Composite All Maturities	1.28	2.46	6.40	7.96	6.42	4.97	3.85
International Bonds	Barclays Global Aggregate (USD Hedged) *	0.97	1.81	3.22	5.54	5.35	2.28	1.68

### Summary of Statistics:

- **Australian Cash** returned 0.42% in May and returned 4.97% over the last 12 months.
- **Australian Bonds** posted solid gains of 1.28% in May, compared with a return of 6.40% over the past year reflected by the UBS Composite All Maturities Index.
- **International Bond prices** rose 0.97% in May, 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**, high yield debt underperformed in May as spreads rose by 0.41% (i.e. spreads widen, prices fall). Emerging market spreads and investment grade debt spreads increased by 0.22% and 0.15% respectively.

### Commentary:

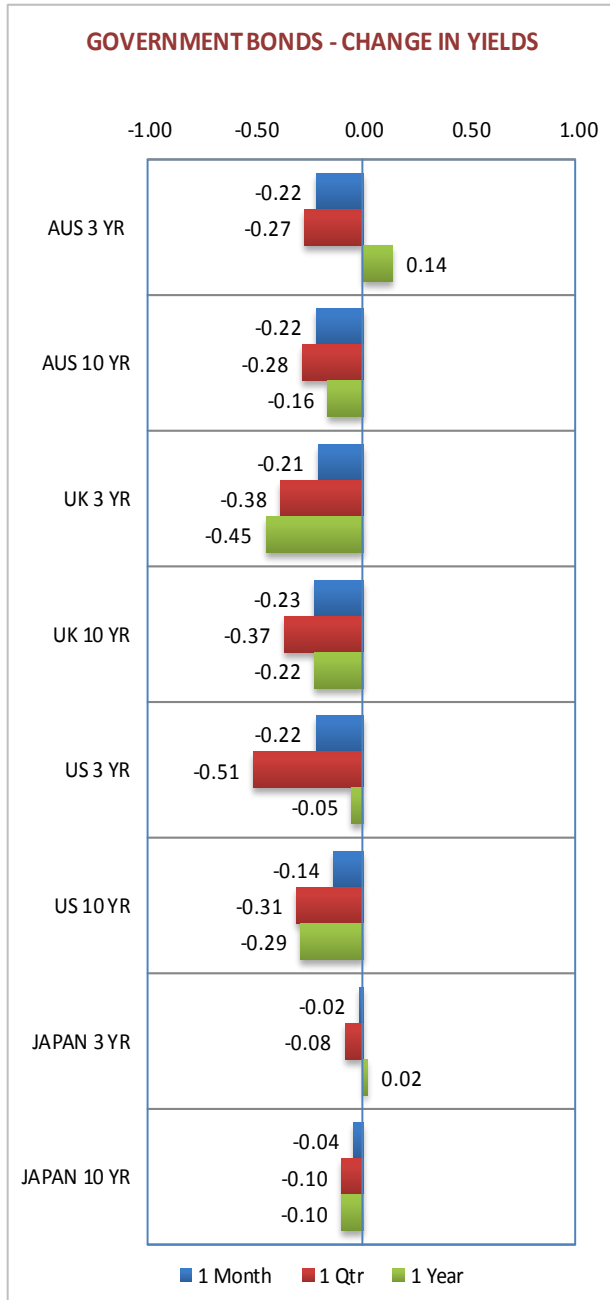
The RBA kept interest rates on hold at 4.75% in May (and June) for the fifth (sixth) straight month which was broadly expected, with a strong Australian dollar helping to contain inflationary pressures. However, the RBA raised its inflation forecasts which suggests a rate hike “at some point” as outlined in the quarterly Statement on Monetary Policy on 9 May. This saw spreads widen between the Australian and US bonds following the statement. However, the RBA’s longer term economic growth forecasts still remain unchanged.

10 year Australian bond yields ended the month lower by 0.22% and were priced to yield 5.21%. Government bond yields continued to show a slightly steeper upward sloping yield curve suggesting the market is expecting higher interest rates in the future. However, an unexpected decline in retail sales in March of 0.5% and an unexpected loss of 22,100 full time jobs in April pushed yields down in the second half of May.

Fears over a second Greece bailout package of 50 or 60 billion euros are on the cards after the country continued to show struggling signs of keeping its economy afloat. German 10 year bund yields rose 0.21% in May to yield 3.02%.

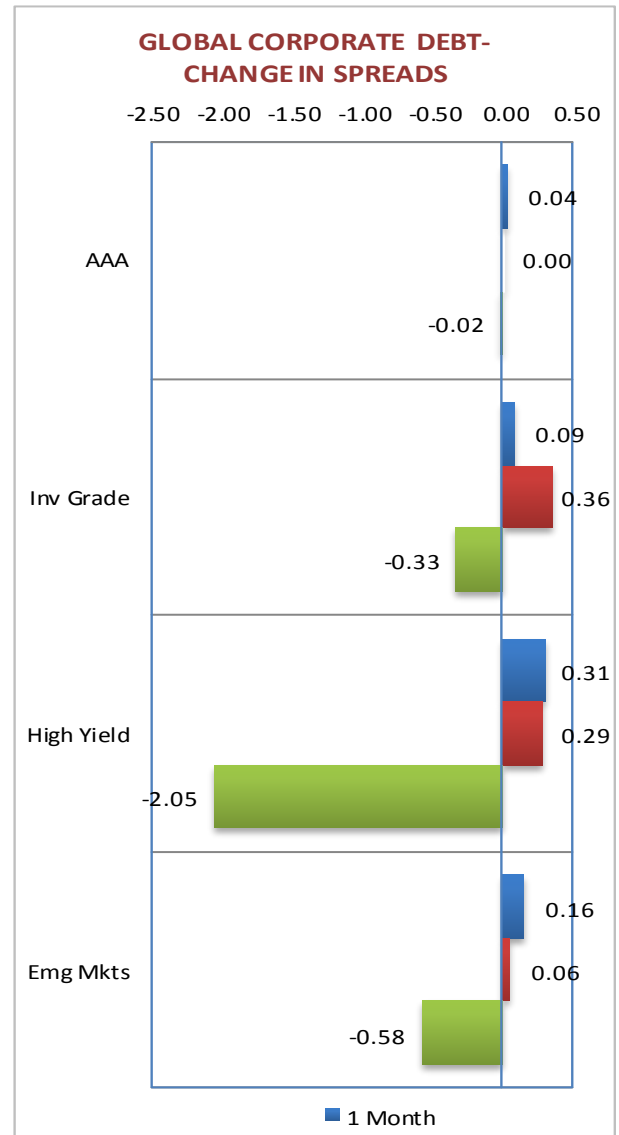
The second phase of the QEII purchases worth \$600 billion is scheduled to end in June. However, disappointing US jobs data and an increase in the unemployment rate by 0.1% in May from the previous month raised questions on whether there may be a QEIII. Europe’s debt crisis, coupled with a rise in US unemployment and jobless claims pushed down US 10 year bond yields to price 3.07% by the month end.

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	Past		3 Yr	5 Yr	Fin Yr To	Cal Yr to	
		1 Mth	Qtr					1 Yr
Australian Shares	S&P/ASX 300	-2.02	-1.68	11.13	-1.69	3.19	14.15	0.72
Australian Shares - Market Cap	ASX 50 Leaders	-2.31	-1.32	10.21	-0.83	3.65	12.86	1.74
	ASX Midcap 50	0.15	-1.66	12.74	-3.90	1.17	17.44	-1.15
	ASX Small Ordinaries	-1.89	-4.70	18.07	-4.77	2.50	22.65	-5.59
	S&P/ASX Emerging Companies	-5.03	-6.10	36.68			43.72	-4.42
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	-1.52	-2.16	22.77	-1.46	8.92	24.21	-1.71
	S&P/ASX 300 Industrials	0.90	-2.00	11.80	-5.15	-1.81	20.06	-0.74
	S&P/ASX 300 Consumer Discretionary	-3.08	-4.10	-0.93	-3.81	-3.76	4.37	-1.58
	S&P/ASX 300 Consumer Staples	0.46	1.01	13.49	6.29	11.19	12.69	4.68
	S&P/ASX 300 Energy	-0.92	0.21	17.07	-2.64	10.27	20.56	2.71
	S&P/ASX 300 Healthcare	-1.63	0.41	10.41	0.90	8.39	10.65	-2.19
	S&P/ASX 300 Information Technologies	-3.64	-4.20	-9.91	-0.01	4.69	-7.74	-10.53
	S&P/ASX 300 Telecommunication	4.18	9.09	17.50	-3.73	6.78	7.60	14.91
	S&P/ASX 300 Financials ex Property	-4.45	-2.41	7.34	4.39	3.91	13.23	2.60
	S&P/ASX 300 Utilities	0.46	4.93	14.65	-3.58	1.52	12.46	0.49
	S&P/ASX 300 Property	-0.02	-1.67	5.60	-12.97	-9.10	6.68	4.03

### Summary of Statistics:

- **Australian shares**, as measured by the S&P/ASX 300 index, declined 2.02% in May, underperforming the MSCI World (ex-Australia) Index.
- The **Financials (ex-Property)**, IT and Consumer Discretionary sectors were the hardest hit, falling 4.45%, 3.64% and 3.08% respectively.
- On a **market cap basis**, the micro-cap S&P/ASX Emerging Companies Index plummeted 5.03%, despite a return of 36.68% over one year.

### Commentary:

The Australian market ended in the red for the second consecutive month, down 2.02% in May and returning -1.68% in the past quarter as measured by the S&P/ASX 300 Index. General weakness in commodity prices for most of the month and poor domestic economic data were main themes.

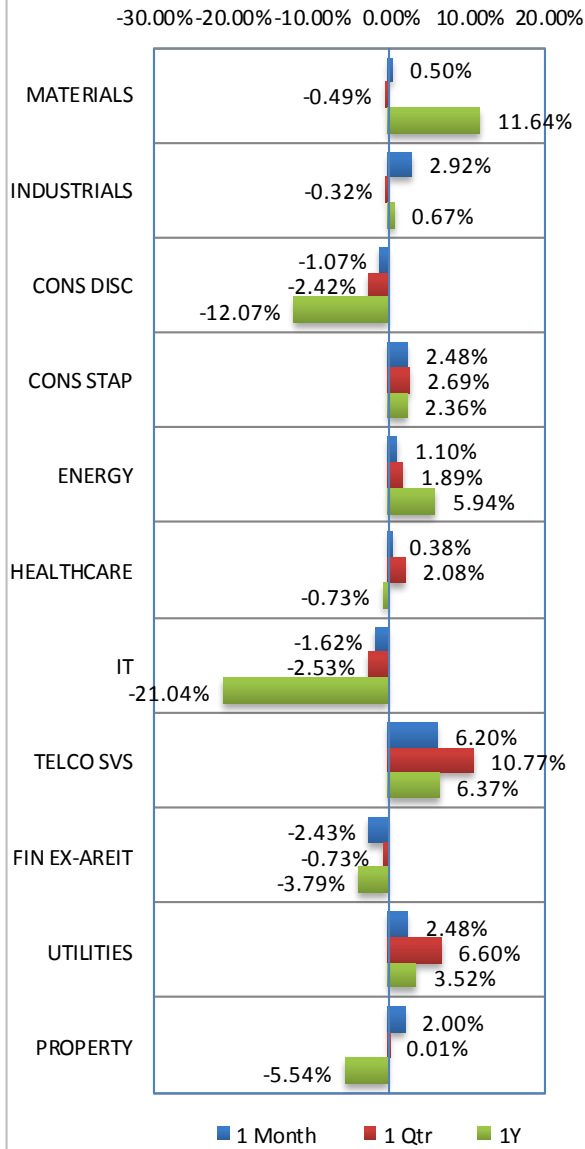
The financials (ex-Property) sector showed the most weakness in May, declining 4.45% due to slower lending growth forecasts. Banking heavyweights ANZ fell 6.06% while CBA dropped 5.75% as a result of a downgrade in the Australian banking sector by Goldman Sachs. The broker has noted greater uncertainty in sustainable global growth going forward and revised down forecasted annual earnings for three out of the four big banks.

The consumer discretionary sector also underperformed with retailers JB Hi-Fi (-9.57%), David Jones (-9.22%) and Myer (-9.12%) experiencing sharp losses. The inflation rate in the March quarter (+1.6%) jumped compared to the December quarter (+0.4%), placing caution over possible interest rate hikes in the coming months. This has not helped consumer and business confidence which continues to reflect poorly in the retail space.

The telecommunications sector was the best performer, continuing to rally 4.18% on the back of news that Telstra (+3.78%) developed strategies to maintain market share in the small business sector and plans to close its deal in selling its copper network to the National Broadband Network (NBN) in the coming weeks.

**Australian Shares (cont)**

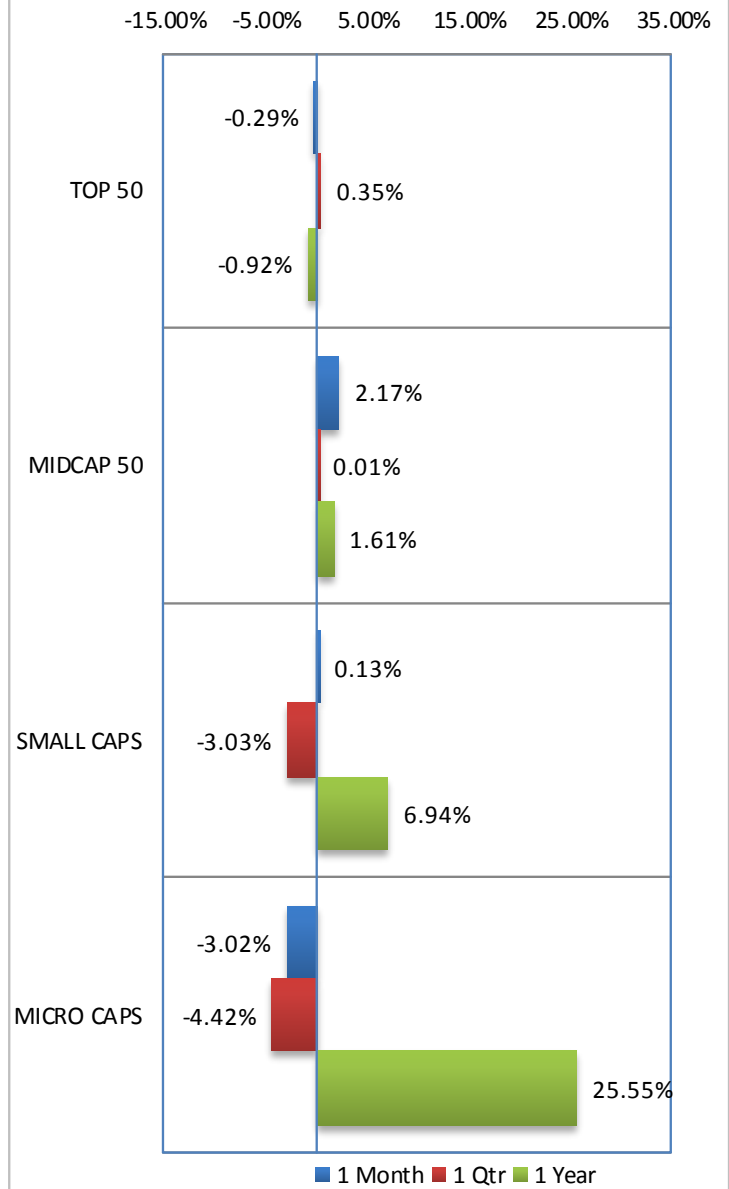
**GICs SECTOR PERFORMANCE RELATIVE TO ASX 300 ACCUMULATION INDEX**



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%.

**LARGE, MID AND SMALL CAP PERFORMANCE RELATIVE TO ASX 300 ACCUMULATION INDEX**



**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\$	0.70	-3.46	0.47	-5.49	-4.49	4.82	3.00
	MSCI World A\$	0.57	-3.40	0.81	-5.33	-4.26	5.12	2.92
	MSCI Small Cap World Ex Aus	0.59	-1.71	6.17	1.02	-2.49	12.15	3.88
International Shares - Regional in A\$	MSCI North America	1.33	-2.98	-0.83	-3.31	-3.58	5.52	3.46
	MSCI Asia	1.19	-5.00	-5.44	-5.05	-4.48	-4.63	-4.70
	MSCI AC Asia ex-Japan	1.33	3.99	3.00	0.52	4.45	1.99	-0.36
	MSCI China	3.03	2.58	-6.87	-2.24	9.21	-7.36	0.87
	MSCI Europe	-0.69	-1.03	8.35	-7.80	-4.38	9.93	6.96
	MSCI Emerging Markets	0.01	1.59	1.42	-2.52	4.24	2.89	-1.44
	MSCI India	-1.64	0.63	-12.89	-1.43	6.01	-15.88	-13.49
	MSCI Japan	1.03	-14.32	-14.09	-10.40	-10.66	-11.71	-9.70
International Shares - Hedged	MSCI World ex Au Local Currency *	-1.22	-0.25	19.02	-2.28	0.91	24.26	4.74
International Shares - Gold Shares in A\$	FTSE Gold Mines	-3.45	-5.50	-9.18	4.55	1.80	-12.79	-8.88
International Shares - Global Resources in A\$	HSBC Global Mining	-2.52	-5.46	8.96	-4.82	6.27	14.75	-6.20

**Summary of Statistics:**

- **International Shares (ex-Australia)** rose 0.70% in May on an unhedged basis, but lost 1.22% from a local currency perspective.
- The **FTSE Gold Mines Index**, which reflects gold mining stocks globally, slipped 3.45% in May as measured in Australian dollar terms.
- On a **regional basis**, China added 3.03% and was the best performer for the month. However, India and Europe declined by 1.64% and 0.69% respectively.

**Commentary:**

International equity markets added modest gains in May. The MSCI World Index (ex-Aust) ended the month higher on an unhedged basis by 0.70%.

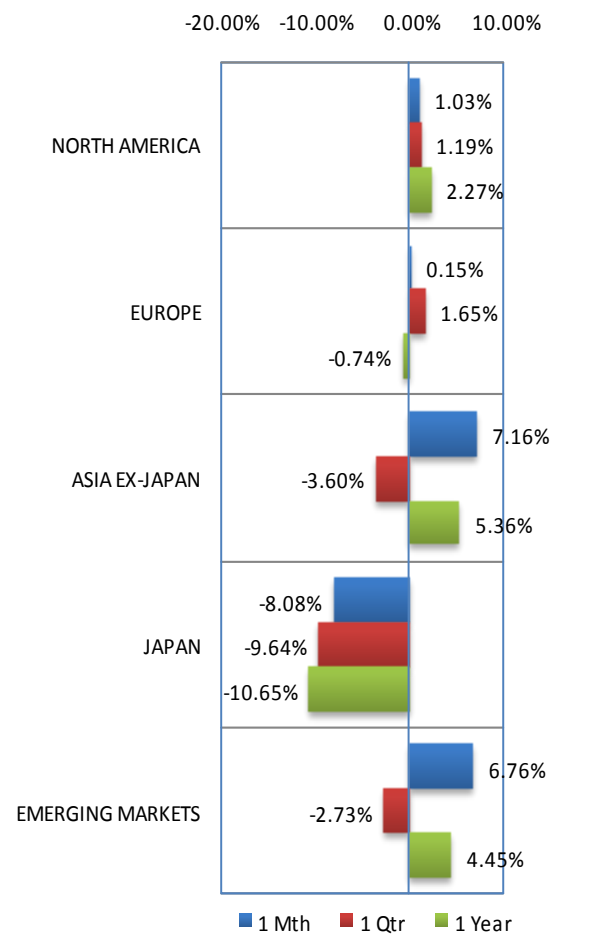
Local markets were broadly down with the AUD depreciation cushioning falls amid concerns over the resurfacing European debt crisis and weaker than expected US economic data. The Australian dollar fluctuated between a low of US\$1.0441 and \$1.1012 throughout the month, closing 2.97% lower given no interest rate rise in May.

Commodity prices also lacked strength for most of the month despite the CRB Spot Commodity Price Index ending the month higher by 1.78%.

European markets backtracked 0.69% over concerns surrounding the sovereign debt crisis, a downgrade of Greece's credit rating by credit rating agency Fitch and military attacks in Libya. Ratings agency Fitch downgraded Greece's credit rating by three notches. Indian markets fell 1.64% when the Reserve Bank of India raised interest rates more than expected.

North American markets ended the month higher by 1.33% in unhedged terms after a new austerity plan was unveiled dealing Greece's debt crisis, with the country appearing to agree to a tax cut with international lenders. The effect of upbeat US company earnings results more than offset lacklustre US economic data on share market performance in May.

**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	-0.02	-1.67	5.60	-12.97	-9.10	6.68	4.03
Global Listed Property - Hedged in A\$	FTSE E/N Dev	1.13	2.86	24.54	-6.74	-2.81	27.85	7.09
Global Listed Infrastructure - Hedged in A\$	UBS Global Infra. & Utilities	1.22	-0.80	17.38	-2.32	4.65	17.24	4.88
Global EM Listed Infrastructure - Hedged in A\$	UBS EM Infra. & Utilities	-0.05	1.78	-3.78	-1.54	6.57	-4.31	0.39

**Summary of Statistics:**

- The S&P/ASX 300 Property Index's return was flat in May (-0.02%), underperforming the FTSE EPRA/NAREIT Index, which rose 1.13%.
- Global Listed Infrastructure continued its rally, rising 1.22% which outperformed the Global Emerging Markets Listed Infrastructure, which pared 0.05%.

**Commentary:**

The S&P/ASX 300 Property ended flat for the month. However, Australian Listed property has still continued to underperform Global Listed Property on a 12 month basis by 18.94%.

Lend Lease had sold half of its ownership in the King of Prussia shopping mall to Morgan Stanley Prime Property Fund for US\$545 million, booking a profit of approximately US\$100 million. The company plans to use the proceeds from the sale to reduce debt denominated in GBP and fund US investments. Furthermore, it announced that it remains on track to deliver a 15% return on equity for the full year.

In the infrastructure space, Leighton Holdings announced that it had reported a A\$382 million loss for the nine months to March 31 and expects further losses of A\$427 this year. Costs have been escalating for the contractor for its two largest projects in Australia as well as impairment costs on its Middle East joint venture. Leighton was also accused of failing to promptly inform the public regarding these costs and may prompt an investigation by ASIC.

New home sales in Australia struggled in April, growing the slowest pace this year by 0.2%, compared to a growth of 4.3% in the previous month according to the HIA. Building new home conditions continue to remain weak and auction clearance levels, which measure the demand for housing, have fallen to levels that have not been seen since the credit crunch in 2008.

**Author:**

**Christopher Huang**

**Data Analyst**

Zenith Investment Partners Pty Ltd

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

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%.

**FTSE EPRA NAREIT REGIONAL LISTED PROPERTY RETURNS**

-25.00 15.00 5.00 5.00 15.00 25.00



**Data source: Bloomberg**

**DISCLAIMER:** This report is prepared exclusively for clients of Zenith Investment Partners (Zenith). The report contains recommendations and advice of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Each client should assess either personally or with the assistance of a licensed financial adviser whether the Zenith recommendation or advice is appropriate to their situation before making an investment decision. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report. No part of this report is to be construed as a solicitation to buy or sell any investment. The performance of the investment in this report is not a representation as to future performance or likely return. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. Zenith usually receives a fee for assessing the fund manager and product(s) described in this document against accepted criteria considered comprehensive and objective.