

## MARKET INDICATORS

Market	Indicator	Current	Last Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	3.75	3.5	0.25%	4.25	-0.50%
	3 Month Interbank Borrowing Rate	4.095	3.9475	0.15%	4.825	-0.73%
	10 Year Bond	5.65	5.23	0.42%	3.99	1.66%
Australian Shares	All Ords	4882.7	4715.5	3.55%	3659.3	33.43%
	S&P/ASX 200	4870.6	4701.3	3.60%	3722.3	30.85%
Regional Shares	Dow Jones Industrials (US)	10428.05	10344.84	0.80%	8776.39	18.82%
	S&P 500 (US)	1115.1	1095.63	1.78%	903.25	23.45%
	FTSE 100 (UK)	5412.88	5190.68	4.28%	4434.17	22.07%
	TOPIX (Japan)	907.59	839.94	8.05%	859.24	5.63%
	Hang Seng (Hong Kong)	21872.5	21821.5	0.23%	14387.48	52.02%
Property	ASX 300 A-REITS Index	887.76	870.12	2.03%	876.44	1.29%
	US\$ Gold Price	1096	1177.7	-6.94%	862.2	27.12%
	US\$ Oil Price – West Texas Crude	77.4	76.7	0.91%	36.24	113.58%
	US\$ CRB Spot Commodity Index	421.13	414.09	1.70%	312.98	34.55%
Exchange Rates	AUD / USD	0.8969	0.9178	-2.28%	0.6928	29.46%
	AUD / EUR	0.6241	0.6092	2.45%	0.4919	26.88%
	AUD / GBP	0.5581	0.5539	0.76%	0.4796	16.37%
	AUD / JPY	82.82	79.24	4.52%	62.57	32.36%
Volatility	VIX Index	21.68	24.51	-11.55%	40	-45.80%

### Key Points:

- Australian government 10 year bond yields finished the month higher.
- Global equity markets rallied in December, with all major markets producing positive returns. The MSCI world ex-Aus index was up 3.64% for the month.
- Gold price retreated in December finishing the month at US\$1096, down -6.94% for the month, after peaking over US\$1200 early Dec.
- The Australian dollar fell against the USD, which performed strongly for the month. On a trade weighted basis the AUD finished the month higher.
- Volatility decreased significantly in December, down 11.55% continuing from November's 20% fall as measured by the VIX Index.
- The RBA raised interest by 25bps for an unprecedented 3<sup>rd</sup> consecutive month.

### 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	0.32	3.48	5.93	5.91	1.69	3.48
Australian Bonds	UBS Composite All Maturities	-0.38	1.73	6.57	5.72	2.82	1.73
International Bonds	Barclays Global Aggregate \$A	-0.62	8.02	7.95	6.97	6.66	8.02

### Summary of Statistics:

- **Australian Cash** returned 0.32% in December and 3.48% for the year as measured by the UBS Bank Bill Index.
- **Australian Bonds** fell by -0.38% in December, as measured by the UBS Composite All Maturities Index. Australian 10 Year government bonds are now yielding 5.65% in comparison to 5.23% last month and 3.99% one year ago.
- **International bonds** as measured by the Barclays Global Aggregate (Hedged \$A) Index fell -0.62% in December. 10 Year bond yields rose in the US from 3.20% to 3.79%; rose in the UK from 3.7% to 4.2% and remained relatively flat in Japan.
- **Credit spreads** tightened marginally during December.

## Commentary:

US government bond yields were driven higher by year end portfolio rebalancing, diminished global debt concerns and stronger economic data. The yield on US 10 year Bond rose 65 bps, underperforming the Australian 10 year Bond.

Key stories during the month were mounting concerns for Greece, Mexico and Spain, after Credit Agency downgrades. Concerns for the Dubai area largely retreated when the UAE Central Bank and the Government of Abu Dhabi agreed to repay \$4.4 billion in Dubai World's credit obligations. Meanwhile concerns for Russia and Peru subsided as they received Credit agency rating upgrades.

Domestically, Australian interest rates rose for an unprecedented third consecutive month. However, the RBA was non-committal in regards to future rate rises, causing the fixed income market to rally. The RBA's Deputy Governor Ric Battellino was quoted saying "other interest rates in the economy have risen by 100bps relative to cash rate... and are now above [pre crisis] cyclical lows" implying that the current cash rate of 3.75 is consistent with a pre crisis rate of 4.75, reducing the expectation for future rate rises in the near term. Market pricing shows a cash rate of 4.25% by June, and 4.90% by year end.

## 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. 12mth High	% Ch. Fr. 12mth Low
Australian Shares	S&P/ASX 300	3.69	37.59	-0.79	8.28	25.74	37.59	0.00	60.06
Australian Shares - Small Caps	ASX Small Ordinaries	4.29	57.46	-4.79	6.74	27.76	57.43	0.00	89.15
Australian Shares - Style	SPGI BMI Australia Growth	3.68	38.63	1.78	10.81	23.44	38.63	0.00	54.15
	SPGI BMI Australia Value	3.58	40.89	-2.99	6.66	29.38	40.87	-0.94	74.32
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	4.12	51.68	8.81	17.05	27.76	51.65	0.00	64.60
	S&P/ASX 300 Industrials	7.36	27.58	-9.43	1.09	36.19	27.59	0.00	89.96
	S&P/ASX 300 Consumer Discretionary	2.73	44.28	-12.00	-3.57	27.18	44.27	-1.26	75.35
	S&P/ASX 300 Consumer Staples	2.04	31.36	5.60	10.68	20.06	31.37	0.00	38.29
	S&P/ASX 300 Financials	3.56	43.18	-6.01	5.30	32.28	43.19	-3.74	85.04
	S&P/ASX 300 IT	4.57	59.25	5.21	11.64	25.87	59.26	-0.98	81.23
	S&P/ASX 300 Telecommunication Svs.	1.00	-1.59	-0.49	-0.19	4.13	-1.57	-2.65	18.99
	S&P/ASX 300 Financials ex-Property	3.58	50.25	-1.75	8.31	33.74	50.24	-3.73	86.41
	S&P/ASX 300 Property Trusts	3.40	9.59	-23.44	-7.48	24.26	9.56	-5.47	76.04

## Summary of Statistics:

- **Australian shares**, as measured by the S&P/ASX 300 index, continued their recovery with a 3.69% increase during the month. They finished the calendar year strongly, up 37.59%, and 60.06% from the market lows in March.
- The **small cap sector** outperformed large caps, up 4.29%, returning 57.43% for the calendar year.
- On a **sector** basis, Industrials (+7.36%) outperformed the broader market, whilst Telecommunication (+1.0%) performed the worst for December. IT (+59.25%) and Financials ex Prop (+50.25%) were the best performing sectors for 2009. Whilst, Industrials (+89.96%) and Financials (+85.04%) produced the highest change from the 12 month in March.
- The Australian share market performed in line with the MSCI World Index during December. However, it outperformed by 36.2% for 2009.

## Commentary:

A stronger US Dollar that acted to restrain commodity prices resulted in the Australian Share market starting the month in decline. A late month market rally coincided with stronger commodity prices and a bounce in the AUD. Profit taking and uncertainty about Christmas sales contributed to the retail sector underperforming the broader market.

Key Indicators that helped to buoy markets during the month included a better-than-expected fall in unemployment to 5.7% (market forecast 5.9%), an increase in dwelling starts, as well as the RBA's minutes release. Battellino (RBA Deputy Governor) comments that current market interest rates were above pre-crisis cyclical lows relative to the cash rate also helped market sentiment.

In Company specific news, NAB made a proposed bid of \$13.3 billion to acquire AXA's Australian and New Zealand operations, following a previous offer from AMP. Foster's warned that economic conditions abroad and unfavourable foreign currency movements were likely to affect H1 FY10 wine earnings by \$80-\$90m.

Reports released in December showed that the capital raising trend continued, with ASX listed companies raising \$6.7 billion in more capital in the month of November.

## 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. 12mth High	% Ch. Fr. 12mth Low
International Shares	MSCI World Ex-Au A\$	3.64	0.34	-9.48	-0.50	9.54	0.34	-2.32	20.92
	MSCI World A\$	3.64	1.39	-9.17	-0.21	10.10	1.39	-2.17	22.01
International Shares - Small Caps	MSCI World Small Companies Ex-Au A\$	6.53	11.01	-9.43	-0.01	12.52	11.01	-2.46	33.55
International Shares - Regional	MSCI US A\$	3.88	-1.44	-9.44	-2.07	10.18	-1.44	-3.31	18.47
	MSCI Europe A\$	3.33	6.06	-9.57	1.67	14.20	6.06	-2.04	42.41
	MSCI AC Asia Ex-Jap \$A	6.21	33.75	0.50	10.71	14.15	33.75	-0.05	42.41
	MSCI Japan A\$	2.57	-17.52	-14.11	-3.39	-6.85	-17.52	-20.34	7.32
	MSCI China A\$	2.25	26.07	5.22	20.47	6.23	26.08	-3.62	39.25
	MSCI India A\$	5.34	57.22	2.86	17.59	15.79	57.22	-1.40	82.74
International Shares - Hedged	MSCI Emerging Markets A\$	5.81	38.78	0.88	12.74	18.13	38.78	-0.48	50.84
	MSCI World ex-Au \$A (Hedged)	3.74	26.14	-6.58	1.88	20.05	26.14	-0.75	61.73

Source: DataStream

### Summary of Statistics:

- **International Shares (ex-Australia)** rose 3.64% in December on an unhedged basis and 3.74% on a fully hedged basis.
- **Small caps** outperformed the broader market, returning 6.53%.
- On a regional basis, all major markets returned positive results. AC Asia ex Jap (+6.21%) and Emerging Markets (+5.81%) were the best performing markets in \$A, while China (+2.25%) performed the worst.

### Commentary:

Global markets advanced, with all major markets posting positive returns for the month. Better-than-expected US employment data released early in the month drove a resurgence in the USD which gathered momentum in the 2<sup>nd</sup> half of the month as investors predicted a quicker return to health for the US economy. The combination of receding fears about the situation in Dubai and improving economic data proved favourable for equity markets.

In Company specific news, Bank of America outlined its plans to repay the US\$45 billion bailout loan to the US government, while Wells Fargo also reached an agreement to repay US\$25 billion of government money. It wasn't all positive news with the US government set to lose US\$2 billion in bailout money previously given to AMTrust Bank. This followed the acquisition of AMTrust by New York Community Bancorp (NYC) after it filed bankruptcy. Industrial giant General Electric Company (GE) also announced that they expected profits to remain flat in 2010. Stock prices reacted to the negative news during the month by falling 6.6% from December highs.

## 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. 12mth High	% Ch. Fr. 12mth Low
Australian Listed Property	S&P/ASX 300 Property Trusts	3.40	9.59	-23.44	-7.48	24.26	9.59	-5.47	76.04
Global Listed Property	FTSE EPRA/NAREIT GLOBAL REITS (Hedged \$A)	9.46	28.35	-13.50		37.31	28.35	-0.50	89.04
Global Listed Infrastructure	S&P Global Infrastructure Hedged \$A	5.99	20.93	-2.79	9.02	20.41	20.93	-0.11	56.10

### Summary of Statistics:

- In December Australian Listed Property underperformed global property markets, returning 3.4% against 9.46% for Global Listed Property
- Global Listed Infrastructure as represented by the S&P Global Infrastructure Hedged \$A returned 5.99%

### Commentary:

During December the Property Sector outperformed the broader equity markets. Singapore and Hong Kong once again continued to be the best performing countries, spurred on by improved macro-economic data and a recovery in residential, office and retail rents and capital values. US REITs also outperformed the broader US market with housing gaining momentum on better-than-expected employment data.

Domestically, the property market returned 3.4% for December, underperforming the global property markets significantly by -6.06% for the December and -18.76% for 2009. Global Infrastructure returned 5.99% for December, finishing the year up 20.93%.

Company-specific news was dominated early in the month by Lend Lease, increasing its cash funded bid for Primelife by \$22m. Mid month Lend Lease (LLC) also acquired ING Retail for A\$1.4 Billion, coupled with a new development project, stock prices rallied. However following these developments, Moody's and S&P revised their outlook on LLC to review for downgrade. Late month, Dexus sold US\$177 million of industrial assets at a 17% discount to book value, and sold a 50% shareholding in Whitford city shopping centre for A\$256.5 million.

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**Data Source: Thomson Reuters**

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