Zenith Monthly Market Report (31 March 2010)

MARKET INDICATORS

Market	Indicator	Current	Last Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	4.00	3.75	0.25%	3.25	0.75%
	3 Month Interbank Borrowing Rate	4.36	4.15	0.21%	3.67	0.69%
	10 Year Bond	5.76	5.43	0.33%	4.41	1.35%
Australian Shares	All Ords	4893.10	4651.10	5.20%	3532.30	38.52%
	S&P/ASX 200	4875.50	4637.70	5.13%	3582.10	36.11%
Regional Shares	Dow Jones Industrials (US)	10856.63	10325.26	5.15%	7608.92	42.68%
	S&P 500 (US)	1169.43	1104.49	5.88%	797.87	46.57%
	FTSE 100 (UK)	5679.64	5354.52	6.07%	3926.14	44.66%
	TOPIX (Japan)	978.81	894.10	9.47%	773.66	26.52%
	Hang Seng (Hong Kong)	21239.35	20608.70	3.06%	13576.02	56.45%
Property	ASX 300 A-REITS Index	857.46	859.24	-0.21%	648.91	32.14%
Commodities	US$ Gold Price	1113.15	1105.50	0.69%	916.10	21.51%
	US$ Oil Price – West Texas Crude	81.01	76.87	5.39%	46.50	74.22%
	US$ CRB Spot Commodity Index	431.17	427.60	0.83%	315.22	36.78%
Exchange Rates	AUD / USD	0.92	0.89	2.92%	0.69	33.26%
	AUD / EUR	0.68	0.66	4.21%	0.52	31.54%
	AUD / GBP	0.61	0.58	4.22%	0.48	26.39%
	AUD / JPY	85.55	79.42	7.72%	67.48	26.78%
Volatility	VIX Index	17.13	19.50	-12.15%	44.14	-61.19%

Key Points:

- Australian shares had another strong month finishing up 5.74%, with small caps outperforming large caps.
- Global equity markets strengthened in March up 3.66% on an $A unhedged basis, as measured by MSCI World Index. All major regions had positive returns; India (+6.58%) performed the strongest, whilst Japan trailed (+2.50%).
- The Gold Price rose in March, while it was a mixed month for base metal prices.
- The Australian Dollar performed well in March, appreciating against all major currencies. On a trade weighted basis the Australian Dollar finished the month 3.2% higher.
- Volatility continued to decline, down 12.15% as measured by the VIX Index.
- The RBA increased the official cash rate by 25bps, a move that was only partially predicted by analysts. The Australian government 10 year bond yields also finished the month higher.

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	0.35	3.54	5.74	5.84	2.73	1.02
Australian Bonds	UBS Composite All Maturities	-0.55	2.73	6.51	5.99	4.11	1.26
International Bonds	Barclays Global Aggregate $A	0.56	10.23	8.40	7.28	6.25	0.56

Summary of Statistics:

- **Australian Cash** returned 0.35% in March; so far it has returned 2.73% for the financial year as measured by the UBS Bank Bill Index.
- **Australian Bonds** fell -0.55% in March, as measured by the UBS Composite All Maturities Index. Australian 10 Year government bonds are now yielding 5.76% in comparison to 5.43% last month and 4.41% one year ago.
- **International bonds** rose 0.56% in March, as measured by the Barclays Global Aggregate (Hedged $A) Index. 10 Year bond yields rose in the US (from 3.61% to 3.83%) and Japan (from 1.30% to 1.39%); whilst bond yields remained flat in the UK.
- **Credit spreads** fell in March with higher rated credit underperforming.

Commentary:

Australian government bonds weakened as positive economic news filtered in during the month. Poor results for government bond auctions caused prices on the Australian 10 year Bond (yields were up 33bps to 5.76%) and the US 10 year bond (yields were up 20bps to 3.83%) to weaken, whilst the spreads between the countries widened.

During the month Greece remained in the news, however the fears of the financial stability of the country were substantially less than in previous months. It was speculated that Germany and France, with the IMF had agreed to become a lender of last resort, although the development had not been confirmed.

Domestically, the RBA raised the official cash rate by 25 bps (to 4.00%). The move was only partially predicted by analysts. The RBA minutes released suggested that positive economic news, coupled with increasing house prices had forced the rise. The RBA hinted that the cash rate had not yet returned to 'normal' and future rises were inevitable. Futures traders also expect further interest rate increases, with the June 2010 90 day Bank Bill contract priced at 4.69%, while December 2010 is priced at 4.82%.

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	5.74	41.93	-2.59	7.99	27.31	1.25	-0.81	42.04
Australian Shares - Small Caps	ASX Small Ordinaries	6.84	58.08	-7.48	5.85	25.76	-1.57	-5.19	58.53
Australian Shares - Style	SPGI BMI Australia Growth	8.17	41.23	-0.01	10.53	26.81	2.73	0.00	41.64
	SPGI BMI Australia Value	5.39	49.19	-3.84	6.69	32.34	2.29	0.00	48.99
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	8.59	44.10	5.64	15.36	29.16	1.10	-3.50	46.31
	S&P/ASX 300 Industrials	4.68	56.03	-11.70	0.25	35.69	-0.37	-3.60	58.38
	S&P/ASX 300 Consumer Discretionary	5.14	53.46	-13.04	-2.05	30.09	2.29	-0.66	53.83
	S&P/ASX 300 Consumer Staples	2.79	34.67	2.12	10.99	21.29	1.03	-1.30	35.07
	S&P/ASX 300 Financials	4.69	52.05	-6.23	5.74	35.61	2.52	-1.32	51.35
	S&P/ASX 300 IT	5.66	47.81	0.26	13.49	33.82	6.31	-1.90	49.22
	S&P/ASX 300 Telecommunication Svs.	0.39	1.02	-8.41	-3.28	-5.14	-8.90	-11.32	4.92
	S&P/ASX 300 Financials ex-Property	5.52	53.65	-2.30	8.69	38.08	3.24	-1.12	53.33
	S&P/ASX 300 Property Trusts	-0.03	42.02	-23.27	-7.19	22.23	-1.63	-7.02	46.90

Summary of Statistics:

- **Australian shares,** as measured by the S&P/ASX 300 index rallied 5.74% during March.
- The **small cap sector** outperformed large caps, returning 6.84%.
- On a **sector** basis, there was a large disparity between the best performer (Materials, +8.59%) and the worst (Property Trusts, -0.03%). All sectors excluding Property trusts had a positive return for the month.
- The Australian share market outperformed the MSCI World Index during March. On a Country basis, the ASX 300 outperformed all major markets except India.

Commentary:

With reporting season finished, the Australian market returned to broader key drivers. Investors focused on economic indicators (domestic and global), company news, whilst also keeping one eye fixed on the European debt situation.

Key indicators during the month were mostly positive, GDP grew 0.9% for the quarter and the 12 month change was above expectation at 2.7% (market forecast was 2.4%). New entrants to the Labour force disappointed with a rise of 0.4k (this figure has been revised downwards, to -4k). This disappointment was subdued by an increase in the total hours worked. Retail sales reported for January were above expectations, however sales reported later in the month for February fell.

In company specific news, ANZ was in the spotlight during the month after the bank had regulatory approval for a banking license in India, as well as approval for the acquisition of the Royal Bank of Scotland's (RBS) Singapore and Indonesian businesses. It is expected an Indian branch will be opened within 12 months, most likely in Mumbai. It is estimated the finalisation of the RBS transaction will take 3 months. ANZ is also reviewing its 10% stake in Vietnam-based Sacombank, now that it has established a wholly-owned presence in the region.

Rio Tinto confirmed it would consider investment opportunities after the successful divestment of US$10b worth of assets, to ease the company's debt burden. During the month a US$1.35b deal with aluminium producer Chinalco to develop an iron ore project in western Africa was signed. The company also featured in the news when four executives were handed jail sentences for bribery and stealing state secrets by a Chinese court.

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$	3.58	15.14	-9.09	-0.30	10.90	1.24	-1.11	14.34
	MSCI World A$	3.66	16.00	-8.82	-0.02	11.50	1.27	-0.92	15.09
International Shares - Small Caps	MSCI World Small Companies Ex-Au A$	5.10	30.70	-8.49	0.92	18.96	5.73	-0.95	29.27
International Shares - Regional	MSCI US A$	3.41	13.37	-8.01	-1.29	13.82	3.30	-1.17	17.51
	MSCI Europe A$	3.96	18.98	-11.11	0.54	9.97	-3.70	-5.66	17.64
	MSCI AC Asia Ex-Jap $A	4.63	31.47	0.74	9.91	13.33	-0.72	-1.76	17.64
	MSCI Japan A$	2.50	4.49	-12.71	-2.04	-1.19	6.07	-5.92	13.83
	MSCI China A$	2.85	19.58	5.63	19.37	2.45	-3.56	-7.05	17.55
	MSCI India A$	6.58	63.42	5.84	18.48	18.96	2.74	-1.50	56.47
	MSCI Emerging Markets A$	5.45	37.43	1.06	12.10	18.59	0.39	-0.92	31.76
International Shares - Hedged	MSCI World ex-Au $A (Hedged)	6.61	47.25	-5.73	2.76	25.92	4.89	-0.21	44.80

Summary of Statistics:

- **International Shares (ex-Australia)** rose 3.58% in March on an unhedged basis and 6.61% on a fully hedged basis.
- **Small caps** outperformed the broader market, returning 5.10%.
- On a **regional** basis all markets rallied, India (+6.58%) and the Emerging Markets (+5.45%) performed the best, whilst the Japanese (+2.50%) and Chinese (+2.85%) markets trailed.

Commentary:

During the month, markets focused on economic news, while concern for the PIGS (Portugal, Italy/Ireland, Greece and Spain) sovereign default risk abated. Late month global markets had a minor stumble when Fitch downgraded Portugal's credit rating to AA- from AA. The affects of the downgrade were subdued after German and French financial ministers reached an agreement over the financial assistance for Greece. The details of the agreement had yet to be confirmed.

Key indicators out of the US in March were positive: GDP growth hit 5.6% for the quarter; inflation was below market the forecast at 2.1% (market forecast was 2.3%); unemployment remained stable, and retail sales, housing starts and building permits were stronger-than-expected.

In company specific news, aircraft manufacturer Boeing had a solid month rising 14.96% (on a $US basis). Analysts reported that a large proportion of airlines are looking to accelerate the deliveries of aircrafts, following a steady rise in airline passenger numbers. During the month brokers upgraded the outlook for Boeing. The company also announced that it had reached a milestone in crucial testing for its signature airplane, the 'dreamliner'.

The Royal Bank of Scotland's (RBS) restructuring process continued to gain traction during March, as transactions by ANZ and Novia Scotia were completed. Share prices rallied as investors welcomed the change. RBS finished the month up 16.8% (on a £UK basis), continuing its strong run of performance (up 50.68% for the quarter).

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	-0.03	42.02	-23.27	-7.19	22.23	-1.63	-7.02	46.90
Global Listed Property	FTSE EPRA/NAREIT GLOBAL REITS (Hedged $A)	9.76	88.62	-3.68		55.71	13.40	0.00	87.65
Global Listed Infrastructure	S&P Global Infrastructure Hedged $A	4.24	41.32	-4.30	8.35	22.15	1.44	-0.85	44.01

Summary of Statistics:

- Australian Listed Property significantly underperformed the global property markets, returning -0.03% against 9.76% for Global Listed Property.
- **Global Listed Infrastructure** as represented by the S&P Global Infrastructure Hedged $A returned 4.24%, underperforming the broader global equities market.

Commentary:

In March the Global Property Sector continued its outperformance of the broader equity markets. The sector has now returned 88.62% in a 12 month period.

In Global company-specific news, UK REIT Liberty International, announced plans to demerge its strategies. Under the new structure the company will be split into non-REIT and REIT companies, to be rebranded Capital & Countries Properties PLC and Capital Shopping Centres Group PLC (REIT) respectively. Investors welcomed the proposed change as Liberty finished the month up 6.5% (on a £UK basis).

Domestically, the property market once again underperformed the broader equities market returning -0.03% for the month. Housing finance dropped for the fourth straight month in January (reported in March) and had been affected by interest rate hikes and the withdrawal of the government housing stimulus (a reduction in first home buyers grant).

In domestic company-specific news, Charter Hall completed transactions with Macquarie Group to acquire parts of Macquarie's real estate business. The transactions worth approximately AUD$ 50 million and was part of a number of transactions Charter Hall completed in March, having also acquired Manuka Terrace and Mile End Homemaker Centre businesses.

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