

Market Update

September 2011

- US downgraded by Standard & Poor's
- European Central Bank helps support markets
- RBA leaves rates unchanged

What's inside?

p2 Equity markets

p3 Australian dollar

The pulse

↑ Gold
12.2%

↓ Oil
(WTI 3 month futures)
7.2%

August market performance

Equity Markets – Price Indices	Index	At Close 31/08/2011	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4369.85	-2.90%	-1.55%
Japan	Nikkei	8955.20	-8.93%	1.49%
Hong Kong	Hang Seng	20534.85	-8.49%	-0.01%
UK	FTSE 100	5394.53	-7.23%	3.24%
Germany	DAX	5784.85	-19.19%	-2.37%
US	Dow Jones	11613.53	-4.36%	15.96%
EMU*	Euro 100	2007.17	-10.70%	-7.04%
World**	MSCI - Ex Aus (Gross)	827.03	-7.14%	6.29%

Property – Price Index	Index	At Close 31/08/2011	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	788.87	1.47%	-8.33%

Interest Rates	At Close 31/08/2011	At Close 31/07/2011	At Close 31/08/2010
Aust 90 day Bank Bills	4.87%	5.07%	4.75%
Australian 10 year Bonds	4.38%	4.80%	4.77%
US 90 day T Bill	0.01%	0.10%	0.14%
US 10 year Bonds	2.23%	2.80%	2.47%

Currency***	At Close 31/08/2011	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$ 1.07	-2.73%	20.13%
British pound	A\$/STG 0.66	-1.82%	13.42%
Euro	A\$/euro 0.74	-2.67%	5.96%
Japanese yen	A\$/yen 82.05	-2.89%	9.37%
Trade-weighted Index	76.50	-2.42%	10.87%

* Top 100 European stocks trading on the FTSE ** Price Index – Source: www.msci.com

*** All foreign exchange rates rounded to two decimal places

Source: Iress Market Technology

Past performance is not a reliable indicator of future performance.

Global economies

The US credit downgrade in early August, coupled with continuing concerns over the debt issues in Europe shaped what was a volatile month for equity markets.

US Economy

Despite the debt ceiling agreement reached on August 2 between US Republicans and Democrats, ratings agency Standard and Poor's (S&P) took a bold step and downgraded the US from AAA to AA+ with a negative outlook.

This set the tone for a volatile month in risk assets such as equities and some currencies. The flight to perceived safety was highlighted by the rise of gold, which achieved record high prices as investors looked towards a traditional store of wealth.

At the US Federal Reserve's (Fed) August meeting, there was also discussion around the economy's weakened state as they

downwardly revised growth for 2011 and 2012.

In turn, the August meeting also saw the Fed commit to keeping rates exceptionally low until at least the middle of 2013, which provided more clarity to the market as opposed to "for an extended period"; the Fed's previous line on rates.

However, talk that the US may go back into recession by market participants raised speculation that the Fed would announce a third round of quantitative easing (QE), or QE3.

With these expectations, equity markets reacted to the news and data released, as well as the anticipation of intervention to stimulate the economy by policy makers.

In the end, Fed Chairman Ben Bernanke didn't announce a further round of QE, nor hint of one, at his address at the annual Jackson Hole central banks' conference.

Continued from page 1

He did point out though that there would be further discussion around the Fed's kit of "policy tools" available to support the economy at the upcoming September meeting.

Europe

European equities also came under some selling pressure during August as debt concerns in the region heightened.

The main focus of the selling was the banking sector, amid concerns over their holdings of troubled European sovereign debt.

While no major markets escaped the sell-off in risk assets, the German market was hit particularly hard and closed out the month over 19% lower.

During August, the European Central Bank (ECB) entered the debt market to buy and support Italian and Spanish bonds in order to help stabilise and reassure the market.

The ECB also said they would provide unlimited liquidity to member banks for the next six months, with Italy and Spain both announcing further budget austerity packages to reduce their debt.

In Greece, the year-to-date estimates of the Greek Government's Budget showed that the forecast for deficit reduction was behind schedule.

While the Greek economy remains troubled, the latest official estimates show that the Greek economy did in fact expand by a modest 0.2% in the first quarter after a 2.8% contraction in the fourth quarter of last year. Over the year to 31 March, the economy had contracted by 5.5%.

Mid-month, Germany's Chancellor Merkel and French President Sarkozy announced there would be no Eurobonds issued.

They also ruled out increasing the size of the European Financial Stability Facility (EFSF) that was recently lifted from €250bn to €440bn in July when the Greek bail-out was announced.

Late in the month, the German Government Cabinet approved Germany's participation in the enlarged EFSF, however, approval is still needed by the German Parliament which is set for a vote on September 29.

The German economy also revealed that growth slowed from 1.3% in the first quarter to 0.1% in the second quarter, possibly affected by disruptions in supply to the auto and manufacturing industries.

The wider Euro-zone economy grew by an estimated 0.2% in the June quarter, down from the 0.8% pace in the first quarter with annual growth pulling back from 2.5% to 1.7% over the year to 30 June.

China

In China, news was mixed as industrial production and retail sales both posted reasonable growth compared to last month, however, fixed asset investment such as machinery, property and plant looks to have weakened recently.

Annual inflation which is running at 6.5% was higher than expected and well above the target rate of 4%. Food price inflation rose while non-food inflation ticked down slightly from its peak.

Australia

On the home front, the Reserve Bank of Australia (RBA) left rates on hold in August and September. The last change to the cash rate was November last year.

While the second quarter inflation report saw a 0.9% rise, signs that the economy's growth had slowed impacted the RBA's decision.

However, despite signs that the Australian economy's growth rate tempered, the RBA remains concerned about the pick up in the rate of growth of nominal wages and the pressure of labour costs.

The RBA's latest forecasts for the economy show their forecast for growth this year to be around 3.25% with inflation at the upper end of the 2-3% target range.

Equity markets

Volatility was higher during August with significant intra-day swings occurring throughout the month and across all major markets.

Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	2.07%	-1.42%	0.84%	7.26%
	S&P/ASX 50 Acc.	1.43%	-0.79%	1.23%	7.50%
	S&P/ASX Small Ordinaries Acc.	7.24%	-1.81%	0.29%	6.63%

While Australia is not immune from the current issues surrounding the globe, the All Ordinaries, although still negative, performed relatively well compared to the major indices in August. The All Ordinaries fell 2.9% over August and is down around 1.6% over the year.

Sector	1 Mth	3 Mths	1 Yr
Energy	-5.7%	-17.1%	-5.8%
Materials	-4.7%	-8.4%	10.1%
Industrial	-3.8%	-7.0%	1.2%
Consumer Discretionary	-2.9%	-12.6%	-12.5%
Consumer Staples	0.5%	-3.6%	-1.3%
Health Care	-3.6%	-10.0%	-2.1%
Financials	-0.7%	-7.1%	0.3%
Info Tech	-1.8%	-11.9%	-13.8%
Telcos	5.8%	5.0%	20.2%
Utilities	4.6%	4.8%	12.7%
Property	2.9%	-4.5%	-2.6%

Big movers this month

Going up

↑ Telcos 5.8%

Going down

↓ Energy -5.7%

Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. (\$A)	-5.10%	-8.44%	-6.97%	-1.86%
	MSCI World Index Hedged (\$A)	9.70%	-4.13%	-2.60%	2.56%
	MSCI World Small Cap (\$A)	0.26%	-3.44%	-4.56%	1.11%
Emerging	MSCI Emerging Mkts Free	-9.35%	-2.31%	1.31%	9.00%
	MSCI AC Far East Free (ex Japan)	-7.24%	0.48%	1.68%	6.59%

The Dow Jones also held up relatively well throughout the month despite the volatility, with the index closing the month 4.4% lower; it is however up nearly 16% over the year to 31 August.

Asian and European markets had the biggest falls from a regional perspective with the Hang Seng dropping 8.5%, the Nikkei dropping 8.9%, the FTSE dropping 7.2% and the Eurotop 100 falling 10.7%.

While these indices provided some significant falls, the German market provided the biggest losses to investors as a result of the European debt issues with a fall of 19.2%.

Property

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	-2.63%	-12.10%	-12.12%	-4.07%
Global	UBS Global Investors Index	-1.30%	-6.67%	-8.46%	N/A

The S&P/ASX 300 A-REIT Accumulation Index bucked the trend in August by posting a 2.9% gain and outperforming its global counterparts. The retail property sector performed relatively well and offset the losses in the industrial and commercial property sectors.

In contrast, global property lost ground with the UBS Global Investors Index falling just over 3% in August. In the global space, Japan performed well on a relative basis.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	7.10%	7.95%	7.03%	6.51%
	Australian 90 Day Bank Bill	4.93%	4.42%	5.42%	5.49%
Global	BarCap Global Agregate Index	-9.45%	0.21%	0.33%	0.97%
	BarCap Global Ag., Index Hedged	6.88%	9.63%	8.47%	7.55%

Both Australian and Global bonds continued to benefit from the flight to safety with Australian bonds, as measured by the UBS Composite Bond Index, gaining 2% throughout August.

Globally, unhedged bonds performed relatively well compared to their hedged counterpart by returning 3.9% over the month. Hedged bonds, as measured by the BarCap Global Aggregate Index (Hedged) gained 1.7% over the month.

Over the year to 31 August, Australian bonds gained 7.1% compared to their hedged equivalent which returned 6.9%.

Australian dollar (AUD)

After breaking through 1.10 USD and reaching a new post-float high in early August, the AUD traded closer to parity but made a substantial recovery from those lows as market instability began to recede.

By early September, the AUD had recovered around 70% of its early August losses.