

in brief

The **Reserve Bank of Australia (RBA)** left **interest rates unchanged** in May.

In **local and international** bond markets, **yields** on 10 year **government bonds rose sharply** in response to **concerns** around the level of **government debt** that will be flooding markets to fund **worsening** budget deficits.

In **Australian shares**, the **short-selling ban** on financials was **removed**, and **capital raisings** continued unabated.

All major **growth markets** posted a **positive return** in May 2009.

cash

The Reserve Bank of Australia (RBA) left interest rates unchanged in May, citing indications of a revival in China as one area for optimism that the worst may be over.

The RBA also left the cash rate on hold at its most recent meeting on 2 June, as evidence has continued to emerge that the global economy is stabilising. Prospects are being helped by better conditions in global financial markets.

Australian bonds

The UBSA Composite Bond All Maturities index was down 0.7% in May. Yields on 10 year government bonds rose sharply to 5.28% (up from 4.57% in April), in response to concerns around the level of government debt that will be flooding markets.

The Australian government announced a budget deficit of \$57.6 billion for 2009-10. To support the funding of initiatives included in the budget, the government said it would issue \$60 billion in government bonds over the 12 months to 30 June 2010. Net debt was forecast to peak around 13.8% of GDP in 2013-14.

Corporate credit markets registered a 1% rise in May, indicating that spreads are starting to narrow in Australia. Engineering company Downer EDI launched a corporate bond issue in May, and is expected to sell \$78 million in three-year senior ranking bonds.

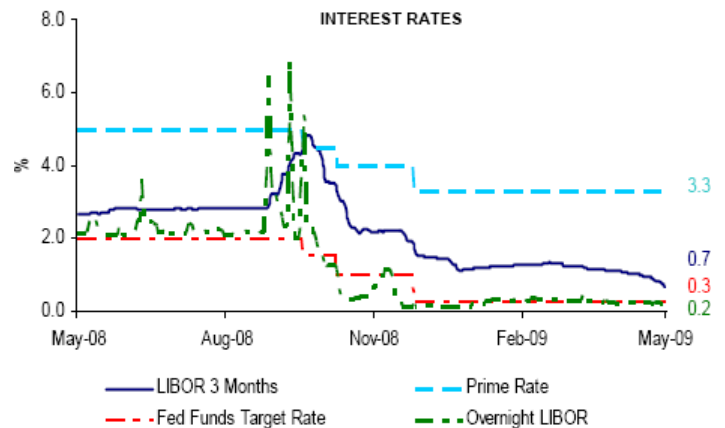
international bonds

The Barclays Capital Global Aggregate index (hedged, \$A) was up 0.4% in May. Yields on US 10 year treasury bonds rose to 3.46%, up from 3.12% in April), their highest level since November 2008. The rise in yields was partly due to fears about an increased supply of government bonds as the US budget deficit worsens. The US government announced it is boosting debt sales to \$US3.25 trillion in the financial year ending 30 September 2009.

Markets also began to consider the possibility of a downgrade to the current AAA rating, particularly as Moody's downgraded Japan's foreign currency credit rating, and placed the UK on negative credit watch. This

caused some concern that the US might follow and contributed to some of the weakness in long dated bonds.

In credit markets, the three month LIBOR dropped to a record low in May. The LIBOR, a benchmark rate for short-term interest rates, fell to 0.66% (at 28 May). The rate was 4.82% at its high point in October 2008. This is a signal that credit markets have showed signs of recovery from the freeze caused by the September 2008 collapse of Lehman Brothers, and can be seen in the chart below:



source: Bloomberg, LIBOR, Fed Funds Target Weight.

Australian listed property securities

The S&P ASX 300 Property Accumulation index was up 4.2% in May, outperforming the broader Australian sharemarket by 2.7%. A continuation of April's theme was evident in May, with the cautious re-emergence of risk appetite continuing, and a re-weighting to more capital constrained REITs, demonstrating an increased tolerance for risk.

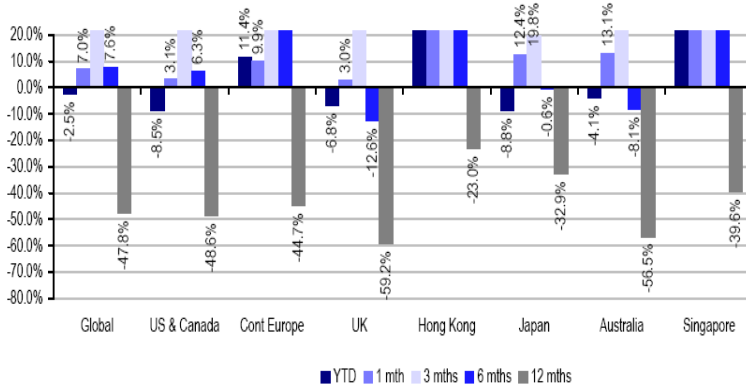
Top performers over the month were ING Industrial Fund (47.1%), which was a beneficiary of an increased risk appetite; Macquarie CountryWide Trust (34.9%) and ING Office Trust (31.0%). Macquarie CountryWide Trust outperformed as the market grew more comfortable with their ability to raise equity. ING Office Trust had no material newsflow in May, but benefited from general sentiment.

The worst performing trusts were Goodman Group (-32.4%), Macquarie Office Trust (-2.6%), Commonwealth Property Office Fund (-1.8%). Goodman Group suffered after an announcement of a \$300 million alternative investment facility that failed to meet market expectations. Despite a sound quarterly update from Commonwealth Property Office Fund in May, underperformance was attributed to the markets' appetite for risk exposure at the expense of more defensive names.

global real estate securities

The UBS Global Property Investors index (hedged) rose 3.6% in May, with Hong Kong (21.5%) and Singapore (22.0%) the best performers. The US (3.1%) and UK (-5.4%) were the worst performers.

The graph below shows regional returns over several time periods, and also shows a positive 3-month number across all regions:



source: UBS, data to 30 May 2009.

According to data released in May, Singapore had the best environment among Asian REITs in terms of property market growth and regulatory support. In Singapore, every REIT has been able to successfully refinance debt as it has fallen due. They were also forced to take a conservative approach by the Monetary Authority of Singapore, and have benefited from lower gearing levels.

Despite underperforming the benchmark in May, US REITs have raised \$US10.6 billion from share sales in 2009, in order to reduce debt and acquire assets from competitors weakened by the recession. This has also enabled them to avoid distressed asset sales amid rising vacancy rates and declining prices. Property companies raised \$US6.51 billion in April alone. For example, Simon Property group, the biggest US mall owner, raised \$US1 billion in May.

Australian shares

Australian shares rose in May, with the S&P 300 Accumulation index up 1.5%. Banks (excluding NAB) and most other financials (notably AMP, Macquarie, Perpetual and QBE) underperformed their US peers as the short-selling ban on financials was removed. Rising bad debts were again in focus due to bank results season and the implosion of Great Southern Limited.

Capital raisings continued (Santos, Nufarm, ANZ), and the \$A (\$US0.80) rose to its highest level since September 2008, helped by rising commodity prices and general \$US weakness.

Cyclical stocks (retailers, CSR, News Corp) generally continued to outperform more defensive names (healthcare, consumer staples, and telecommunications stocks). Other stocks to surge included Cochlear, Goodman

Fielder, GPT, Macquarie Countrywide, Ramsay, Woodside and gold stocks.

In contrast, profit warnings from Billabong, Lend Lease and within domestic media (Fairfax, West Australian Newspapers) saw their stocks sold down.

international shares

Shares rose in May, but were tempered by some emerging doubts over the economic recovery. The MSCI World index (hedged, \$A) rose 5.7% in May.

The index peaked early in the month on the back of better-than-expected US bank stress-tests, with Wells Fargo and Morgan Stanley able to raise capital to cover their deficits.

Some discouraging retail sales data cast doubt upon the markets' 'green shoots' thesis (that the recession had bottomed). However, better than expected consumer confidence, home sales and GDP numbers saw buyers return late in the month.

Oil and gold also enjoyed strong gains, helping the energy and materials sectors to outperform. Consumer, IT, telecommunications and utilities lagged.

European markets rose (Germany 3.6%, UK 4.1%, France 3.7%), but were held back by automakers (breakdown of the Volkswagen/Porsche merger) and rights issues (Danone, Pernod Ricard). UK banks fell after S&P cut its outlook for the UK from 'stable' to 'negative', raising concerns over the UK's 'AAA' credit rating. Asian markets (Japan 7.9%, India 28%) registered strong gains.

global emerging markets

Emerging markets were up 7.5% in May (MSCI EM index - \$A, div reinvested), as investors shifted their focus from the safety of money market funds into Asian equity funds. China, India, Philippines and Thailand were among the star performers in May. Total inflows into emerging Asian equities were \$US8.8 billion (for the year ended 20 May).

Investors also shifted some of their focus to markets that supply China with raw materials (like Brazil). China's manufacturing expanded for a third month, boosting commodity prices and supporting the view that the global economy might be recovering. China's official Purchasing Managers Index (PMI) was at 53.1 in May. A reading above 50 indicates an expansion. This helped to bolster confidence that China's \$US586 billion stimulus package is fuelling growth in the world's third largest economy.

investment markets data

table 1 - investment market performance to 31 May 2009

asset class	index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Cash Sector	UBSA Bank Bill Index	0.3	0.8	1.9	5.9	6.5	6.5	6.2
Australian Fixed Interest Sector	UBSA Composite Bond Index	-0.7	-0.6	0.8	11.8	7.7	6.6	6.3
International Fixed Interest Sector	Barclays Capital Global Agg (Hedged) Index	0.4	2.1	4.3	8.8	8.2	7.5	7.1
Australian Property Sector	S&P/ASX 300 A-REIT Index	4.2	11.2	-24.7	-51.1	-42.8	-22.8	-9.3
Global Property Sector	UBS Global Investors Index (AUD Hedged) Index	3.6	27.2	0.4	-49.1	-36.4	-18.2	n/a
Australian Share Sector	S&P/ASX 300 Accum Index	1.5	15.9	5.1	-29.2	-18.7	-4.5	6.5
International Share (Unhedged) Sector	MSCI World Ex Australia (AUD Unhedged) Index	0.1	3.8	-10.7	-22.2	-19.5	-9.9	-1.9
International Share (Hedged) Sector	MSCI World Ex Australia (AUD Hedged) Index	5.7	23.6	5.7	-34.1	-21.7	-8.4	0.8
International Smaller Companies	S&P/Citigroup World <US\$1.5bn Cap (AUD Unhedged Net Div) Index	0.9	9.7	-2.7	-22.8	-22.8	-13.2	n/a
Global Emerging Markets	MSCI EM in AUD (div reinvested) Index	7.5	24.7	20.9	-21.8	-9.1	1.3	12.5

table 2 - breakdown of Australian & international fixed interest market performance to 31 May 2009

asset class	index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Aust Fixed Interest	UBSA Corporate/Credit	1.0	0.7	2.4	10.4	6.4	6.0	6.0
	UBSA Government/Treasuries	-2.2	-2.4	-0.5	13.0	8.5	7.0	6.4
	UBSA Semi-Government	-0.8	-0.1	0.5	12.5	8.3	7.0	6.5
Int'l Fixed Interest	Barclays Capital Global Agg Credit (Hedged)	2.7	5.5	8.1	2.6	3.8	4.6	5.3
	Barclays Capital Global Agg Govt (Hedged)	-0.5	0.6	2.3	10.7	9.4	8.2	7.6
	Barclays Capital Global Agg Securitised (Hedged)	0.6	3.1	6.2	10.5	9.5	8.6	7.6

table 3 - performance of major Australian share market indices to 31 May 2009

index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
S&P/ASX 20 Leaders Accum Index	-0.2	12.9	3.6	-23.0	-12.6	-1.2	8.0
S&P/ASX 50 Leaders Accum index	0.8	14.0	3.4	-26.8	-16.6	-3.5	6.8
S&P/ASX 100 Accum Index	1.0	14.6	3.8	-27.8	-17.8	-4.1	6.7
S&P/ASX 200 Accum Index	1.4	15.5	4.6	-28.9	-18.5	-4.4	6.6
S&P/ASX 300 Accum Index	1.5	15.9	5.1	-29.2	-18.7	-4.5	6.5

table 4 - breakdown of Australian share market performance by sector to 31 May 2009*

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	-0.3	26.1	16.0	-31.4	-32.0	-14.8	-6.7
Consumer Staples	-5.0	5.7	4.3	-15.4	-8.9	5.2	10.9
Energy	6.6	22.5	21.6	-22.2	6.7	10.6	25.1
Financials	1.0	17.5	-1.6	-28.6	-26.4	-10.5	1.4
Financials Ex Property Trusts	0.3	18.5	3.5	-23.1	-22.3	-7.7	3.9
Health Care	-7.0	-9.6	-8.9	-16.6	-5.9	6.4	15.0
Industrials	2.0	27.3	-4.0	-39.1	-32.2	-13.7	-0.2
Information Technology	2.1	29.9	38.7	-11.3	-16.7	3.4	13.7
Materials	6.6	22.3	20.7	-34.7	-8.7	1.1	17.1
Property Trusts	4.2	11.2	-24.7	-51.1	-42.8	-22.8	-9.3
Telecommunications	-6.2	-6.7	-17.7	-29.3	-15.6	1.3	-0.8
Utilities	-3.6	10.3	-1.9	-25.3	-21.3	-3.9	8.0

* Based on S&P/ASX 300 Accum Indices (reclassified in accordance with the Global Industry Classification Standard "GICS").

top 5 performing Australian shares in May 2009*

share	return %
ING Office Fund	31.03
GPT Group	29.21
Incitec Pivot Limited	27.67
Bluescope Steel Limited	26.89
Worleyparsons Limited	23.15

bottom 5 performing Australian shares in May 2009*

share	return %
Connecteast Group	-20.00
West Australian Newspapers Holdings Limited	-20.79
Billabong International Limited	-21.70
Goodman Group	-32.43
Elders Limited	-42.53

* Based on the universe of S&P/ASX 100 Index.

table 5 - breakdown of international shares market performance by country to 31 May 2009

	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	5 yrs
	%	%	%	% pa	% pa	% pa	% pa
United States: S&P 500	5.3	25.0	2.6	-34.4	-22.5	-10.2	-3.9
Germany: DAX	3.6	28.5	5.8	-30.4	-20.8	-4.6	4.7
United Kingdom: FTSE 100	4.1	15.3	3.0	-27.0	-18.3	-8.3	-0.1
France: CAC	3.7	21.3	0.5	-34.6	-26.7	-12.7	-2.2
Japan: Nikkei	7.9	25.8	11.9	-33.6	-27.0	-14.9	-3.3
Hong Kong: Hang Seng	17.1	41.8	30.8	-25.9	-6.2	4.6	8.3

Note: All returns are calculated in local currencies.

table 6 - breakdown of international shares market performance by sector to 31 May 2009*

sector name	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	5 yrs
	%	%	%	% pa	% pa	% pa	% pa
Consumer Discretionary	-0.7	25.8	14.2	-30.8	-26.6	-12.9	-5.3
Consumer Staples	4.9	9.5	-3.4	-20.6	-11.5	-1.5	1.4
Energy	9.8	20.1	2.8	-33.7	-11.4	-3.2	7.9
Financials	8.9	46.5	2.8	-43.6	-36.8	-22.2	-9.5
Health Care	4.7	8.9	-1.1	-18.7	-16.4	-7.2	-2.6
Industrials	3.9	27.8	3.2	-41.0	-26.6	-12.6	-1.9
Information Technology	2.5	27.5	19.3	-32.2	-18.3	-6.9	-3.3
Materials	9.1	33.2	22.1	-40.1	-18.4	-4.6	6.2
Telecommunications	0.4	1.9	-7.2	-28.8	-20.8	-5.8	-1.9
Utilities	2.6	4.4	-9.1	-32.9	-19.6	-4.9	4.0

* Based on MSCI World Indices (reclassified in accordance with the Global Industry Classification Standard "GICS").

Note: All returns are calculated in local currencies.

economic indicators

	quarter	year
economic growth		
Australian GDP	0.4% (Mar 09)	1.2% (Mar 08)
United States GDP	-6.3% (Mar 09, annualised)	-5.7% (Mar 09)

inflation		
Australian CPI	0.1% (Mar 09)	2.5% (Mar 09)
United States CPI	0.9% (Apr 09, annualised)	-0.7% (Apr 09)

	latest	12 months earlier
unemployment		
Australian Unemployment Rate	5.5% (Apr 09)	4.2% (Apr 08)
United States Unemployment Rate	8.9% (Apr 09)	5.0% (Apr 08)

	31 May	30 April
official interest rates		
RBA cash rate	3.0	3.0
US Fed Funds rate	0.25	0.25

10 year bond yields		
Australian Interest Rates - 10 year bond yield	5.28	4.57
United States Interest Rates - 10 year bond yield	3.46	3.12

exchange rates		
AUD/USD Exchange Rate	0.8005	0.7347
AUD/EUR Exchange Rate	0.5655	0.5544
AUD/GBP Exchange Rate	0.4964	0.4958
AUD/JPY Exchange Rate	76.4070	72.2835

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