

## in brief

The **Reserve Bank of Australia** kept interest rates **unchanged** (at 3.75%) at its first meeting for 2010 in February, but **raised** the cash rate by 0.25% to **4.0%** in early March.

The **risks to sustainable growth** posed by large **rises in government debt** strongly **influenced investor sentiment** through the month. Attention remained focused on **Greece**, whose **fiscal difficulties** led to a new bout of **investor risk aversion** and **increased market volatility**.

In **Australian shares**, company reporting season was the main driver of stock performance. Returns at the stock level varied very widely within most sectors. The market closed **2% up** for the month.

## Australian Cash

The Reserve Bank of Australia (RBA) surprised markets by keeping rates on hold at 3.75% in February, against the backdrop of unsettled global conditions. But this proved a temporary pause.

At its meeting in early March, the RBA raised the cash rate by 0.25% to 4.0%. They noted that economic conditions in 2009 were stronger than expected, with a range of data suggesting growth in the Australian economy. The accompanying statement maintained the RBA's bias towards tightening.

## Australian Fixed Interest

The USBA Composite Bond All Maturities index rose 0.5% in February. Yields on 10 Year government bonds rose to 5.49% (up from 5.38% in January). Sovereign risk indicators rose sharply as concerns escalated over Greece's budget position and default risk. This dented risk appetite and caused some flight to higher quality markets.

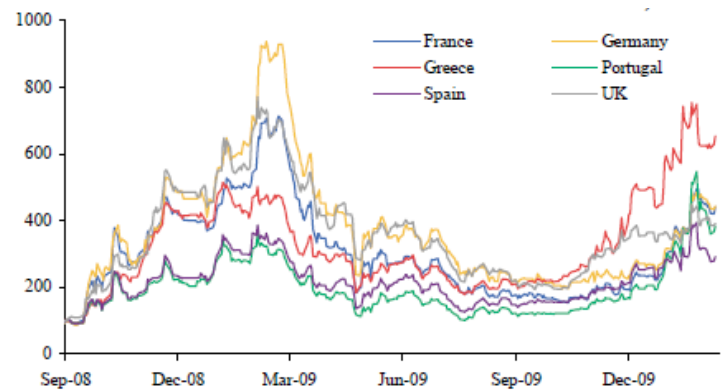
Australia's economy grew 0.9% in the fourth quarter, boosted by \$22 billion in government spending on infrastructure. Further, a rebound in consumer confidence, greater business optimism, surging house prices, a drop in unemployment, and signs of an investment boom in resources projects were forecast by the RBA to underpin sustained growth in Australia's economy.

Gross operating profits jumped 2.2% in the fourth quarter from the previous quarter. Sales of newly built dwellings surged 9.5% in January, reinforcing RBA expectations for stronger growth through 2010.

## Global Fixed Interest

The Barclays Capital Global Aggregate index rose 0.8% in February. Global bond yields were little changed during the month. Nonetheless, sovereign risk continued to dominate the headlines. As Chart 1 shows, European sovereign debt remained a concern.

Chart 1: European sovereign debt risk



Source: Morgan Stanley. Data is indexed to 100 (Lehman Crisis on 15 September 2008).

Governments in the EU responded to the situation in Greece by developing a possible \$US34 billion rescue plan. As the month drew to a close, this led to some stability in fragile global market sentiment.

With global fixed income investors pre-occupied by European sovereign concerns, corporate bond issuance slowed significantly in February.

The US Federal Reserve Board unexpectedly increased the discount rate from 0.50% to 0.75%. The discount rate is the rate the Fed charges on emergency cash loans to banks. The Fed statement cited a continued improvement in financial market conditions but emphasised that this was a step toward normalisation of the Fed's emergency lending facilities but did not signal any change in the outlook for the economy or monetary policy. Yields on 10 year Treasuries rose to 3.61% in February (up from 3.59 in January).

## Australian Listed Property

The S&P ASX 300 A-REIT index was up 1.4% in February, underperforming the broader sharemarket by 0.6%. February was a busy months for A-REITs, with all reporting first half 2010 results.

The Diversified (4.8%) and Leaders (1.7%) sectors were the best performers, while the Retail sector lagged (-0.8%).

The top performing trusts for the month were Charter Hall Group (11.2%), Stockland Trust Group (8.8%) and Abacus Property Group (7.7%). Charter Hall announced the acquisition of the majority of Macquarie's Real Estate Management platform. Stockland reported a strong H1 2010 result, as did Abacus Property.

The worst performing trusts were Ardent Leisure Group (-10.8%) and ING Industrial Trust (-5.6%).

## Global Listed Property

The UBS Global property investors' index increased 3.3% in February, with the USA/Canada the top performing region (5.6%) followed by Australia (1.4%). The worst performing

regions were Continental Europe (-0.8%) and the UK (0.5%).

The Federal Deposit Insurance Corp (FDIC) announced it is disposing of seized assets including real estate and property developments that previously belonged to failed banks. This move will put these assets back into private hands. More than 160 US lenders have collapsed since the start of 2009. This announcement was viewed as a sign of a more stable environment.

In addition, US housing prices fell 1.2% in the fourth quarter 2009 from a year earlier - the smallest loss in two years - as a federal tax credit for homebuyers boosted demand and helped to stabilise the housing market. Sales of existing homes jumped 14% in the fourth quarter from the previous quarter, and the inventory of homes on the market dropped to its lowest level in over three years.

## Australian Shares

The S&P/ASX 300 Accumulation index rose 2.0% in February. Company reporting season was the main driver of stock performance. Returns at the stock level varied very widely within most sectors.

A handful of large names (ANZ, CSL, Wesfarmers, Westpac, Woolworths) were rewarded for results that positively surprised the market. Mining stocks (especially BHP and RIO) also contributed, reversing some recent underperformance, due to rising commodity prices. Other names rewarded following results announcements were Ansell, ASX, IAG, Macquarie Airports, News Corp, Onesteel, Ramsay, Resmed, Stockland, United and Virgin.

The other big story domestically was the positive trading updates issued by ANZ, NAB and Westpac. Good first half results from Commonwealth Bank and Westpac confirmed positive conditions for bank earnings.

However some companies (including Alumina, Billabong, Bluescope, Downer, Fairfax, Primary Health, Qantas, QBE, Santos, Telstra, Toll and Westfield) suffered, following results or outlook guidance that fell short of bullish broker expectations.

## International Shares

February saw uncertain trading in global equity markets due to mixed signals on the US economy and an escalation of the Greek debt crisis. The MSCI World ex Australia index (hedged) rose 2.2%, mainly due to \$A gains.

US shares finished higher due to positive housing and manufacturing data, plus some strong quarterly company results from Exxon, Home Depot and UPS. Market confidence in a continuing low Fed Funds rate was bolstered by a benign inflation result, notwithstanding the first increase in the bank discount rate. However negative employment and confidence data caused some concern, as did the worsening situation in Greece, although confidence that the Eurozone would structure a workable stabilisation plan limited the negative fallout.

Mining stocks outperformed as commodity prices rose, despite a further tightening of bank lending in China. Defensives (Health, Telecommunications, Utilities) lagged.

European equities were under pressure (France -0.8%, Germany -0.2%) weighed down by the fiscal problems emerging in Greece and Spain, and moderate economic data. The UK (3.2%) did much better due to its exposure to mining stocks and a good result from Barclays, which lifted the banking sector.

## Global Emerging Markets

Emerging markets were down 0.4% in February (MSCI EM index, \$A). Investors were concerned that China's economy may lose momentum, undermining the global recovery, as the government reined in earlier stimulus measures to counter inflation and asset-bubble risks.

Partial data suggests that China's manufacturing grew at a slower pace in February. The Purchasing Manager's Index (PMI) slid to a one-year low of 52. This figure compares with a record-low 38.8 in November 2008, when recessions in the US, Europe and Japan sent export orders plunging.

## investment markets data

**table 1 - investment market performance to 28 February 2010**

asset class	index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Cash	UBSA Bank Bill Index	0.3	1.0	1.9	3.5	5.3	5.8	5.9
Australian Fixed Interest	UBSA Composite Bond Index	0.5	1.5	3.6	3.4	8.8	6.6	6.1
Global Fixed Interest	Barclays Capital Global Agg (Hedged) Index	0.8	1.5	4.3	10.8	8.5	8.2	7.2
Australian Listed Property	S&P/ASX 300 A-REIT Index	1.4	1.7	2.9	42.6	-22.8	-24.3	-7.4
Global Listed Property	UBS Global Investors Index (AUD Hedged) Index	3.3	5.1	10.5	72.7	-14.9	-18.1	n/a
Australian Shares	S&P/ASX 300 Accum Index	2.0	-0.7	5.2	45.1	-4.6	-3.3	6.6
International Shares (Unhedged)	MSCI World Ex Australia (AUD Unhedged) Index	0.6	1.2	-1.2	9.0	-7.9	-10.9	-1.4
International Shares (Hedged)	MSCI World Ex Australia (AUD Hedged) Index	2.2	2.8	7.4	48.3	-8.3	-7.1	2.1
Global Smaller Companies	MSCI World Small Cap (AUD unhedged) Index	1.6	6.7	2.4	24.1	-3.0	-10.2	-0.1
Global Emerging Markets	MSCI EM in AUD (div reinvested) Index	-0.4	0.7	5.6	36.7	-6.3	-0.5	9.6

**table 2 - breakdown of Australian & global fixed interest market performance to 28 February 2010**

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	0.6	2.0	4.6	7.1	9.4	6.7	6.3
	UBSA Government/Treasuries	0.2	0.7	2.9	0.0	7.9	6.5	5.9
	UBSA Semi-Government	0.6	1.7	3.8	4.2	9.4	7.1	6.4
Global Fixed Interest	Barclays Capital Global Agg Credit (Hedged)	0.7	2.3	6.5	21.0	8.3	7.2	6.5
	Barclays Capital Global Agg Govt (Hedged)	0.8	1.2	3.3	7.0	8.1	8.3	7.3
	Barclays Capital Global Agg Securitised (Hedged)	0.7	1.5	5.1	12.1	10.0	9.3	7.8

**table 3 – performance of major Australian shares market indices to 28 February 2010**

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	3.0	-0.3	6.8	44.0	1.4	1.7	9.3
S&P/ASX 50 Leaders Accum index	2.5	-0.3	6.1	43.4	-2.1	-1.9	7.2
S&P/ASX 100 Accum Index	2.3	-0.4	5.5	43.8	-3.6	-2.7	6.9
S&P/ASX 200 Accum Index	2.2	-0.6	5.3	44.7	-4.4	-3.2	6.7
S&P/ASX 300 Accum Index	2.0	-0.7	5.2	45.1	-4.6	-3.3	6.6

**table 4 - breakdown of Australian shares market performance by sector to 28 February 2010\***

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	2.3	-0.1	8.2	64.8	-13.0	-13.3	-2.8
Consumer Staples	7.3	0.3	8.3	30.2	2.1	2.8	10.8
Energy	0.4	-6.6	-10.5	23.2	0.6	9.6	17.3
Financials	2.1	1.4	6.3	62.5	0.6	-7.4	4.5
Financials Ex Property Trusts	2.2	1.3	6.9	66.0	6.2	-3.3	7.2
Health Care	3.9	2.2	3.7	5.0	-0.1	3.1	13.3
Industrials	-0.2	2.2	5.2	72.0	-13.4	-12.2	-0.6
Information Technology	1.7	5.2	10.0	69.3	11.6	2.0	11.8
Materials	2.3	-3.1	9.0	45.2	-10.2	4.9	12.5
Property Trusts	1.4	1.7	2.9	42.6	-22.8	-24.3	-7.4
Telecommunications	-6.3	-8.3	-5.9	-4.2	-15.2	-5.8	-3.4
Utilities	2.9	3.4	8.4	20.4	-6.9	-11.1	4.4

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

**top 5 performing Australian shares in February 2010\***

share	return %
Caltex Australia Limited	16.80
Wesfarmers Limited	15.09
Transfield Services Limited	12.85
Ansell Limited	12.45
Map Group	12.23

**bottom 5 performing Australian shares in February 2010\***

share	return %
Energy Resources Of Australia Limited	-11.12
CSR Limited	-11.23
Arrow Energy Limited	-15.52
Primary Health Care Limited	-20.47
Toll Holdings Limited	-20.93

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

**table 5 - breakdown of international shares market performance by country to 28 February 2010**

	<b>1 mth</b>	<b>3 mths</b>	<b>6 mths</b>	<b>1 yr</b>	<b>2 yrs</b>	<b>3 yrs</b>	<b>5 yrs</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
United States: S&P 500	2.9	0.8	8.2	50.3	-8.9	-7.7	-1.7
Germany: DAX	-0.2	-0.5	2.4	45.7	-8.9	-5.9	5.2
United Kingdom: FTSE 100	3.2	3.2	9.1	39.8	-4.6	-4.6	1.5
France: CAC	-0.8	0.8	1.5	37.2	-12.0	-12.4	-1.6
Japan: Nikkei	-0.7	8.4	-3.5	33.8	-13.7	-16.8	-2.9
Hong Kong: Hang Seng	2.4	-5.6	4.5	60.9	-8.0	1.6	7.7

Note: All returns are calculated in local currencies.

**table 6 - breakdown of international shares market performance by sector to 28 February 2010\***

<b>sector name</b>	<b>1 mth</b>	<b>3 mths</b>	<b>6 mths</b>	<b>1 yr</b>	<b>2 yrs</b>	<b>3 yrs</b>	<b>5 yrs</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
Consumer Discretionary	1.7	5.3	8.0	51.6	-8.2	-11.8	-2.9
Consumer Staples	2.6	4.0	11.1	32.5	-0.6	0.5	4.5
Energy	1.0	-1.9	5.9	26.6	-10.8	-1.4	3.0
Financials	2.0	-1.1	-3.8	67.9	-19.7	-21.9	-8.6
Health Care	0.5	3.7	9.5	32.5	-1.1	-3.7	1.4
Industrials	2.3	5.1	8.9	54.3	-13.4	-10.4	-0.8
Information Technology	2.8	2.9	7.9	56.7	-3.5	-3.7	1.2
Materials	3.2	-0.2	9.1	55.8	-13.0	-4.5	5.1
Telecommunications	0.1	-2.8	0.6	10.9	-10.8	-9.4	-2.0
Utilities	-0.8	0.0	-1.2	10.3	-13.7	-9.5	1.6

\* 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
<b>economic growth</b>		
Australian GDP	0.9% (Dec 09)	2.7% (Dec 09)
United States GDP	5.7% (Dec 09, annualised)	0.1% (Dec 09)

<b>inflation</b>		
Australian CPI	0.5% (Dec 09)	2.1% (Dec 09)
United States CPI	0.2 % (Jan 10, annualised)	2.6% (Jan 10)

	latest	12 months earlier
<b>unemployment</b>		
Australian Unemployment Rate	5.3% (Jan 10)	5.5% (Jan 09)
United States Unemployment Rate	9.7% (Jan 10)	9.2% (Jan 09)

	28 February	31 January
<b>official interest rates</b>		
RBA cash rate	3.75	3.75
US Fed Funds rate	0.25	0.25

<b>10 year bond yields</b>		
Australian Interest Rates - 10 year bond yield	5.49	5.38
United States Interest Rates - 10 year bond yield	3.61	3.59

<b>exchange rates</b>		
AUD/USD Exchange Rate	0.8955	0.8889
AUD/EUR Exchange Rate	0.6562	0.6395
AUD/GBP Exchange Rate	0.5882	0.5547
AUD/JPY Exchange Rate	79.5786	80.5787

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