in brief

The Reserve Bank of Australia (RBA) kept **interest rates unchanged at 4.5%** in its June and July meetings.

Softer than expected economic data from China and the US in particular, as well as falling equity markets, **lifted demand for government bonds in developed countries.**

While local shares started the month on a positive note, sentiment turned negative in the latter part of June as **investor concern over the pace of the global economic recovery intensified.**

Similarly after a solid start to the month, the MSCI World ex Australia index (hedged, $A) **gave up all its early gains** to end the month lower.

Australian Cash

At its June meeting, the Reserve Bank of Australia (RBA) left interest rates unchanged at 4.5%. Rates were also kept on hold at the July meeting. A key consideration was the deteriorating situation in Europe which affected investor sentiment and added to uncertainty around global growth prospects. At 4.5%, interest rates in Australia are around their average over the past 10 years.

Australian Fixed Interest

Yields on Australian bonds declined in June amid market concerns that the global economic recovery may be stalling. Softer than expected economic data from China and the United States in particular, as well as falling equity markets lifted demand for government bonds in developed countries.

The yield on the three-year government bond fell 0.3% to 4.5% over the month, while the yield on the longer dated 10-year bond ended the month at 5.1%, also 0.3% lower. The UBSA Composite Bond All Maturities index rose 1.4%.

While heightened risk aversion saw credit markets weaken, new bonds to the value of A$3.25 billion were issued in June by companies such as NAB, Westpac, Telstra, Sydney Airport and Caterpillar Financial.

Global Fixed Interest

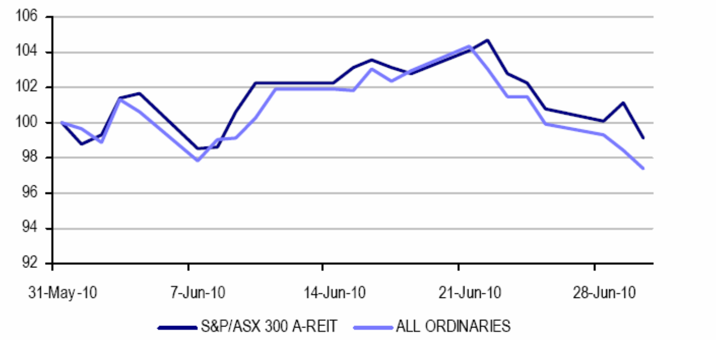
Risk aversion remained elevated in June on the back of growing concerns about global growth and softening economic data. This boosted demand for government bonds, sending their yields lower. The Barclays Capital Global Aggregate index (hedged, $A) rose 1.2% in June.

In the US, the yield on the 10-year government bond declined during the month to below 3%, the lowest level since April 2009. In Japan, 10-year bond yields fell to a seven-year low following an unexpected rise in the jobless rate and a fall in household spending. Yields on United Kingdom government bonds also declined, following the release of a more severe emergency budget than expected.

Credit markets weakened in June, with US investment grade credit spreads widening by 0.18%, while global high yield spreads widened by 0.04% over the same period.

Australian Listed Property

The S&P ASX 300 Property Accumulation index was down 1.0% in June, outperforming the S&P/ASX 200 by 1.6%. The chart below compares the performance of the two indices since May 2010.



source: UBS

The Australian REIT sector started the month on a positive note with renewed interest from both domestic and offshore investors. Recently, the outlook for the sector has improved helped by relatively appealing valuations and improved balance sheets.

The Industrial sector (+2.2%) was the top performer for the month, followed by Commercial (+2.0%). Both sectors reversed significant falls suffered in May. Retail (-3.3%) was the worst performing sector in June, followed by Leaders (-1.2%). The worst performing trust for June was Westfield (-4.4%), which was affected by the negative outlook for US economic growth.

Global Listed Property

The UBS Global Property Investors' index (local currency) decreased 2.9% over June. The poor performance was primarily attributable to broader sharemarket concerns fuelled by the European debt crisis. This prompted investors to flee from riskier assets. Singapore was the top performing region (+2.2%), followed by Continental Europe (+1.4%). The worst performing regions over the period were the US and Canada (-4.9%) as well as the UK (-4.7%).

US REITs experienced significant falls amidst increased risk aversion and concerns regarding the sustainability of the US economic recovery. On the positive side, US REITs continued to be active in raising equity capital in June to improve the quality of their balance sheets with a number of the stronger participants also raising cash to fund potential investment opportunities in distressed assets.

Australian Shares

While local shares started the month on a positive note, sentiment turned negative in the latter part of June as investor concern over the pace of the global economic recovery intensified. The S&P/ASX 300 Accumulation index fell 2.6% for the month.

In an unexpected turn of events, Julia Gillard replaced Kevin Rudd as the Prime Minister of Australia. After only a few days in the office, the new Prime Minister concluded a deal with the mining industry on the new resource tax. Some of the changes included cutting the headline tax rate to 30% and an increase in the threshold at which the tax applies.

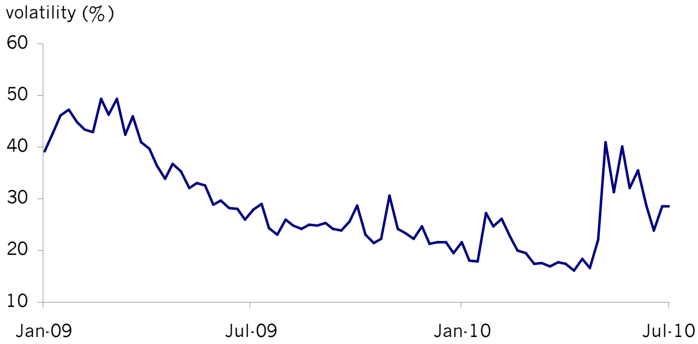
Telecommunications (+9.5) was by far the best performing sector for the month, followed by Utilities (+2.0), while Industrials (-7.3%) was the poorest performer over the period.

The best performing domestic large-cap stocks during the month included Metcash (+12.7%), Telstra Corporation (+10.5%) and Coca-Cola Amatil (+9.9%). The worst performers included Downer EDI (-42.6%), which suffered following a write-down warning, Transfield Services (-18.2%) and Brambles (-17.9%). Positive business performance and acquisition activity boosted Metcash. Telstra's solid performance followed an agreement reached with the National Broadband Network, in which Telstra will help the government to provide new, faster internet services. Brambles fell on concern about competition in the US market that may threaten their market share.

International Shares

Throughout the month international share markets remained highly reactive to the tone of economic data, which was mostly negative. After a solid start to the month, the MSCI World ex Australia index (hedged, $A) gave up all its early gains to end the month 3.9% lower.

In the US, disappointing payroll numbers and a sharp decline in consumer confidence added to investors' worries about the global economy. European share markets had to contend with sovereign debt issues in Hungary, a significant downgrade of Greece's credit rating to non-investment grade by Moody's and falling consumer confidence. In this environment, volatility re-emerged as shown in the chart below.



source: Bloomberg. CBOE Volatility Index. Data as at 30 June 2010.

China's revaluation of its currency offered temporary relief to international share markets towards the end of the month. The increased caution evident in June saw defensive sectors outperform in the month, while cyclical sectors underperformed.

Global Emerging Markets

While the MSCI EM index (hedged, $A) was down 1.4% in June, the sector performed relatively well on the back of strong performance from some of the Asian economies, most notably Sri Lanka (+8.9%) and the Philippines (+3.9%).

In June, manufacturing growth in China slowed for the second consecutive month. This added to investor fears that the global economic recovery might be stalling, and is a sign that the recent tightening measures employed by the Chinese authorities to prevent the economy from overheating are having the desired effect.

During the month, China also announced an exit from the Renminbi's peg to the $US dollar. This announcement was positively received, as it is expected to contribute to economic rebalancing in China and promote a necessary shift away from export-driven growth to domestic demand-led growth.

investment markets data

table 1 - investment market performance to 30 June 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	0.4	1.1	2.2	3.9	4.7	5.6	5.8
Australian Fixed Interest	UBSA Composite Bond Index	1.4	3.6	4.9	7.9	9.3	7.7	6.1
Global Fixed Interest	Barclays Capital Global Aggregate Index (Hedged) in AUD	1.2	3.4	6.1	11.5	10.7	9.8	7.2
Australian Listed Property	S&P/ASX 300 A-REIT Index	-1.0	-1.5	-3.2	20.3	-16.5	-24.3	-8.3
Global Listed Property	UBS Global Investors Index (Hedged) in AUD	-2.9	-4.8	1.3	39.1	-11.3	-15.2	n/a
Australian Shares	S&P/ASX 300 Accum Index	-2.6	-11.2	-10.1	13.1	-5.1	-8.0	4.5
International Shares (Unhedged)	MSCI World Ex Australia Index in AUD	-4.1	-4.8	-3.7	5.2	-6.1	-11.5	-2.2
International Shares (Hedged)	MSCI World Ex Australia Index (Hedged) in AUD	-3.9	-10.9	-5.9	14.1	-9.6	-11.0	0.5
Global Smaller Companies	MSCI World Small Cap Index in AUD	-5.3	-2.7	2.5	15.8	0.3	-9.6	-0.4
Global Emerging Markets	MSCI Emerging Markets Index in AUD	-1.4	-0.4	-0.1	17.9	0.3	-2.4	10.4

table 2 - breakdown of Australian & global fixed interest market performance to 30 June 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	0.9	2.6	4.4	9.1	9.7	7.4	6.2
	UBSA Government/Treasuries	1.5	4.1	4.8	6.8	8.9	7.7	5.8
	UBSA Semi-Government	1.6	4.0	5.4	8.2	9.9	8.3	6.3
Global Fixed Interest	Barclays Capital Global Agg Credit (Hedged) in AUD	1.5	2.9	6.6	16.5	10.8	8.8	6.6
	Barclays Capital Global Agg Govt (Hedged) in AUD	1.1	3.5	5.8	9.4	10.4	9.8	7.2
	Barclays Capital Global Agg Securitised (Hedged) in AUD	1.3	3.5	6.7	12.6	11.9	10.9	8.0

table 3 – performance of major Australian shares market indices to 30 June 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	-2.5	-11.6	-9.3	14.3	-0.8	-3.3	7.2
S&P/ASX 50 Leaders Accum index	-2.4	-11.2	-9.5	13.5	-3.6	-6.4	5.0
S&P/ASX 100 Accum Index	-2.5	-11.2	-9.8	13.2	-4.3	-7.2	4.7
S&P/ASX 200 Accum Index	-2.6	-11.1	-9.9	13.1	-4.9	-7.9	4.5
S&P/ASX 300 Accum Index	-2.6	-11.2	-10.1	13.1	-5.1	-8.0	4.5

table 4 - breakdown of Australian shares market performance by sector to 30 June 2010*

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	-5.1	-12.2	-10.2	14.2	-1.7	-16.7	-4.2
Consumer Staples	0.6	-4.5	-3.5	15.8	6.1	0.6	9.6
Energy	-2.9	-11.9	-12.5	-3.4	-13.7	1.8	11.7
Financials	-4.7	-13.2	-11.0	17.8	1.0	-11.4	1.4
Financials Ex Property Trusts	-5.4	-15.1	-12.4	17.2	4.8	-8.4	3.6
Health Care	-0.2	-10.7	-6.8	2.5	1.5	0.1	10.1
Industrials	-7.0	-18.9	-19.2	10.0	-11.6	-19.6	-4.6
Information Technology	-2.3	-12.6	-7.1	16.9	6.0	-5.8	10.5
Materials	-1.2	-10.5	-9.6	15.6	-12.5	-2.8	12.3
Property Trusts	-1.0	-1.5	-3.2	20.3	-16.5	-24.3	-8.3
Telecommunications	9.2	6.9	-2.6	1.4	-6.5	-5.9	-1.9
Utilities	1.9	-6.2	-4.4	7.8	-6.3	-13.4	1.7

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

top 5 performing Australian shares in June 2010*

share	return %
Metcash Limited	12.76
Telstra Corporation Limited	10.54
Coca-Cola Amatil Limited	9.93
Centennial Coal Company Limited	9.83
Newcrest Mining Limited	9.28

bottom 5 performing Australian shares in June 2010*

share	return %
Macquarie Group Limited	-14.33
James Hardie Industries Se	-15.27
Brambles Limited	-17.89
Transfield Services Limited	-18.16
Downer Edi Limited	-42.58

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

table 5 - breakdown of international shares market performance by country to 30 June 2010

	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
United States: S&P 500	-5.4	-11.9	-7.6	12.1	-10.3	-11.8	-2.9
Germany: DAX	0.0	-3.1	0.1	24.1	-3.6	-9.3	5.4
United Kingdom: FTSE 100	-5.2	-13.4	-9.2	15.7	-6.5	-9.4	-0.8
France: CAC	-1.8	-13.4	-12.5	9.6	-11.9	-17.2	-4.0
Japan: Nikkei	-4.0	-15.4	-11.0	-5.8	-16.6	-19.7	-4.1
Hong Kong: Hang Seng	1.8	-5.2	-8.0	9.5	-4.6	-2.6	7.2

Note: All returns are calculated in local currencies.

table 6 - breakdown of international shares market performance by sector to 30 June 2010*

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	-6.3	-10.3	-3.3	17.4	-3.9	-13.7	-3.1
Consumer Staples	-1.5	-7.2	-2.4	15.2	0.4	-2.5	3.6
Energy	-7.2	-15.0	-15.1	-2.1	-21.5	-10.8	-0.2
Financials	-4.8	-14.2	-9.5	6.4	-16.2	-24.0	-10.2
Health Care	-1.0	-10.3	-8.3	8.7	-3.2	-7.1	-1.6
Industrials	-4.8	-11.1	-2.4	18.0	-12.0	-14.4	-1.3
Information Technology	-6.2	-13.4	-10.0	11.3	-7.4	-9.0	-0.2
Materials	-4.7	-13.5	-10.6	14.3	-17.6	-10.5	5.2
Telecommunications	0.1	-7.2	-8.8	4.2	-9.1	-12.3	-2.5
Utilities	-1.6	-8.6	-10.3	-1.0	-16.5	-12.4	-1.2

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

Note: All returns are calculated in local currencies.

market watch

June 2010

economic indicators

	quarter	year
economic growth		
Australian GDP	0.5% (Mar 10)	2.7% (Mar 10)
United States GDP	2.7% (Jun 10, annualised)	2.4% (Jun 10)
inflation		
Australian CPI	0.9% (Mar 10)	2.9% (Mar 10)
United States CPI	-0.7% (May 10, annualised)	2.0% (May 10)

	latest	12 months earlier
unemployment		
Australian Unemployment Rate	5.2% (May 10)	5.8% (May 09)
United States Unemployment Rate	9.5% (Jun 10)	9.5% (Jun 09)

	30 June	31 May
official interest rates		
RBA cash rate	4.50	4.50
US Fed Funds rate	0.25	0.25
10 year bond yields		
Australian Interest Rates - 10 year bond yield	5.09	5.37
United States Interest Rates - 10 year bond yield	2.93	3.58
exchange rates		
AUD/USD Exchange Rate	0.8447	0.8388
AUD/EUR Exchange Rate	0.6896	0.6836
AUD/GBP Exchange Rate	0.5646	0.5773
AUD/JPY Exchange Rate	74.7431	76.3556

Level 31 Grosvenor Place, 225 George Street, Sydney 2000 Australia. Sydney Office Locked Bag No. 15 Grosvenor Place NSW 1220.
DX 10328 Sydney Stock Exchange. Telephone 02 9373 7000. Facsimile 02 9373 7111.