Market Update

October 2011

- The US unveils Operation Twist and the American Jobs Act
- Greece continues to concern investors
- RBA leaves rates unchanged – again

What's inside?

The pulse

↓ **Gold**
11.1%
↓ **Oil (WTI 3 month futures)**
10.8%

September market performance

Equity Markets – Price Indices	Index	At Close 30/09/2011	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4070.09	-6.86%	-12.22%
Japan	Nikkei	8700.29	-2.85%	-7.14%
Hong Kong	Hang Seng	17592.41	-14.33%	-21.32%
UK	FTSE 100	5128.48	-4.93%	-7.57%
Germany	DAX	5502.02	-4.89%	-11.67%
US	Dow Jones	10913.38	-6.03%	1.16%
EMU*	Euro 100	1928.98	-3.90%	-13.04%
World**	MSCI - Ex Aus (Gross)	775.16	-6.27%	-6.77%
Property – Price Index	**Index**	**At Close 30/09/2011**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	751.44	-4.74%	-11.77%
Interest Rates		**At Close 30/09/2011**	**At Close 31/08/2011**	**At Close 30/09/2010**
Aust 90 day Bank Bills		4.92%	4.87%	5.01%
Australian 10 year Bonds		4.24%	4.38%	4.96%
US 90 day T Bill		0.02%	0.01%	0.16%
US 10 year Bonds		1.92%	2.23%	2.51%
Currency* **		**At Close 30/09/2011**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.97	-9.70%	-0.09%
British pound	A$/STG	0.62	-5.85%	0.76%
Euro	A$/euro	0.72	-3.08%	1.72%
Japanese yen	A$/yen	74.42	-9.29%	-7.86%
Trade-weighted Index		72.40	-5.36%	-0.69%

* 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

Markets continued their volatility throughout September with the European sovereign debt issues continuing to dominate headlines and drive investor sentiment.

US Economy

Beginning in the world's largest economy, as widely expected the US Federal Reserve (Fed) announced a new measure to support the economy at its September meeting.

This time it came in the form of "Operation Twist" which involves switching $400 billion of short-term Treasuries (up to 3 years maturity) to longer-term Treasuries (6 years to 30 years).

On top of this, the Fed announced they would continue to reinvest maturing Treasury holdings.

With the Fed's previous claims of "significant" downside risks to the economic outlook - that is economic conditions could deteriorate further – markets were left somewhat disappointed at the policy response.

Global sharemarkets consequently lost confidence leading to a sell-off in shares.

On the fiscal side of the US's policy tools, President Obama announced a plan called the American Jobs Act which is centred on job creation and preservation.

Despite the US aiming to reduce debt, this $US447 billion package looks at face to be a 3.0% stimulus to the economy but is not intended to add to the country's deficit.

To reinforce this, the President has asked the Joint Committee to "come up with additional deficit reduction necessary to pay for the Act and still meet its deficit target".

The most recent US economic data was further evidence of the need for the boost with unemployment remaining above 9%, consumer confidence weak, and other measures continuing to point to soft economic activity ahead.

Europe

Moving to Europe, September saw some negative news come from Greece and other European nations. This was briefly interrupted along the way with some positive developments which brought respite for markets.

Throughout the month, the focus was very much on Greece again. With the rising social unrest, it was questionable whether the appropriate austerity measures could be implemented in time to get the next tranche of bailout funds.

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Rumours that a Greek default was imminent escalated, forcing German Chancellor Angela Merkel and French President Nicolas Sarkozy to confirm their support for Greece.

In response, to help sure up their budget, Greece has recently passed a new property tax and cut pensions and public sector payroll costs.

However, Greece has also conceded that it will miss this year's budget deficit target which will not make the bailout talks any easier.

Elsewhere, ratings agency Standard & Poor's cut Italy's sovereign debt rating with Moody's also issuing Italy a downgrade in early October.

However, to curb some of this negative sentiment, the European Central Bank (ECB) continued to buy Italian government bonds in an attempt to keep a lid on yields.

Further, the ECB coordinated with the US Federal Reserve, Bank of England, Bank of Japan and the Swiss National Bank to ensure banks have enough funding until the end of the year.

This came after rumours that some French banks were having difficulty accessing funds.

Economic data from the region continues to be weak with data implying that the European economy contracted in September for the first time since July 2009.

On the monetary policy front, the ECB kept rates on hold at 1.5% as expected in September. At the October meeting, this was also unchanged.

On the back of the soft economic data, European interest rate markets are now pricing for half a per cent of cuts over the next 12 months from the ECB.

China

Recent data suggests that China will likely experience a soft landing despite the tightening stance on monetary policy seen throughout the year, with growth in the manufacturing sector continuing to point to robust growth in the September quarter.

Headline inflation has eased slightly to 6.2%, however, food inflation remains relatively high at 13.4% over the year. Non-food inflation is more subdued at around 3% but remains close to record highs.

Australia

In Australia, the Reserve Bank of Australia (RBA) left the cash rate at 4.75% in October, and again noted that activity outside of the resources sector remains weak.

With households still exhibiting very cautious behaviour and the ongoing uncertainty in the global environment, the economic outlook continues to look somewhat weaker than what was expected a few months ago.

Second quarter underlying inflation has been revised down to 0.6% from 0.9%, though annual inflation has only been revised down from 2.7% to 2.6%.

Australia's Gross Domestic Product (GDP) rose by 1.2% in the June quarter after the March quarter was revised to -0.9% compared to the original -1.2% reading.

Household consumption grew a strong 1.0% in the second quarter. Machinery and equipment spending was up 4.9% and engineering construction was up 2.1%.

Looking ahead, annual GDP growth of around 1.75% is expected in 2011 while 2012 GDP growth is still expected to be around 4.25%.

Equity markets

With concern that the global economy is heading back into recession territory, equity markets were down significantly in September but have recovered slightly in early October.

Big movers this month

Going up

↑ Consumer Staples +2.5%

Going down

↓ Materials -12.9%

Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	-8.71%	-0.10%	-0.71%	5.70%
	S&P/ASX 50 Acc.	-7.92%	0.65%	-0.04%	6.11%
	S&P/ASX Small Ordinaries Acc.	-12.11%	-0.14%	-2.27%	4.41%

In Australia, the All Ordinaries index fell 6.9% in September, after the 2.9% fall in August.

With the prospect of slower global growth, the Materials and Energy sectors were hit particularly hard returning -12.9% and -8.3% respectively over the month.

The more defensive Consumer Staples sector (+2.5%) held up relatively well to be the best performing sector and outperform the broader Australian market.

Sector	1 Mth	3 Mths	1 Yr
Energy	-8.3%	-16.8%	-16.0%
Materials	-12.9%	-18.3%	-11.0%
Industrial	-5.9%	-10.1%	-11.4%
Consumer Discretionary	-2.2%	-11.9%	-18.3%
Consumer Staples	2.5%	-1.8%	-2.2%
Health Care	-1.6%	-9.7%	-5.8%
Financials	-4.8%	-11.3%	-9.1%
Info Tech	-5.1%	-11.4%	-20.7%
Telcos	2.1%	11.8%	28.4%
Utilities	-4.0%	-1.3%	1.2%
Property	-4.6%	-8.1%	-6.3%

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Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	-4.52%	-7.02%	-7.45%	-1.62%
	MSCI World Index Hedged ($A)	-3.67%	-2.28%	-4.21%	1.41%
	MSCI World Small Cap ($A)	-4.33%	-2.38%	-5.47%	0.64%
Emerging	MSCI Emerging Mkts Free	-16.46%	-0.87%	-0.53%	7.59%
	MSCI AC Far East Free (ex Japan)	-13.51%	1.77%	-0.44%	5.66%

In the US, the Dow Jones was down 6.0% in September. This follows the 4.4% fall in August. However, over the year, the index remains one of the better performers of the major indices and one of the few in positive territory.

Major European markets also closed lower in September, but held up relatively well compared to other parts of the globe.

Elsewhere, the Hang Seng fell over 14% over the month and has by far underperformed other global major indices over the last 12 months returning -21.3%.

Australian dollar (AUD)

The rise in risk aversion saw the AUD lose almost 9% in September, ending the month below parity at 0.9724 USD.

At the beginning of August, the AUD hit a peak of 1.1080 USD. Over the month, the AUD also lost ground against other major currencies including the Euro, British Pound and Japanese Yen.

Property

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	-6.29%	-11.68%	-13.59%	-4.85%
Global	UBS Global Investors Index	-2.75%	-8.22%	-9.83%	N/A

The S&P/ASX 300 A-REIT Accumulation Index was 4.6% lower in the month of September and underperformed its global counterpart, the UBS Global Investors Index, which fell by 2.9%.

Over the 1, 3 and 5 year periods, global listed property continues to perform better than the Australian listed property market.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	9.04%	7.82%	7.05%	6.53%
	Australian 90 Day Bank Bill	4.93%	4.36%	5.40%	5.48%
Global	BarCap Global Agregate Index	3.61%	0.53%	1.35%	2.24%
	BarCap Global Ag,. Index Hedged	7.79%	10.25%	8.53%	7.60%

The continued flight to safety helped provide gains in the bond market with unhedged global bonds, as measured by the BarCap Global Aggregate Index, also benefiting from the fall in the Australian Dollar throughout September.

Over the year, Australian bonds gained 9% and outperformed its hedged and unhedged global counterparts.

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