

Market Update

November 2011

- **Positive signs from US but the economy remains vulnerable to shocks**
- **Greek and Italian politics help fuel volatility in markets**
- **RBA cuts rates 0.25%, however economic position is "enviable"**

What's inside?

- p2 Equity markets
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The pulse

- ↓ **Iron Ore, Chinese Imports**
30.9%
- ↑ **Oil (WTI 3 month futures)**
17.7%

October market performance

Equity Markets – Price Indices	Index	At Close 31/10/2011	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4360.46	7.13%	-7.88%
Japan	Nikkei	8988.39	3.31%	-2.33%
Hong Kong	Hang Seng	19864.87	12.92%	-13.99%
UK	FTSE 100	5544.22	8.11%	-2.31%
Germany	DAX	6141.34	11.62%	-6.97%
US	Dow Jones	11955.01	9.54%	7.52%
EMU*	Euro 100	2082.25	7.95%	-8.44%
World**	MSCI - Ex Aus (Gross)	841.14	8.51%	-1.62%

Property – Price Index	Index	At Close 31/10/2011	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	778.92	3.66%	-8.10%

Interest Rates	At Close 31/10/2011	At Close 30/09/2011	At Close 31/10/2010
Aust 90 day Bank Bills	4.71%	4.92%	4.87%
Australian 10 year Bonds	4.52%	4.24%	5.20%
US 90 day T Bill	-0.01%	0.02%	0.11%
US 10 year Bonds	2.11%	1.92%	2.60%

Currency***	At Close 31/10/2011	% Change 1 Month	% Change 12 Months	
US dollar	A\$/US\$	1.05	9.02%	7.12%
British pound	A\$/STG	0.65	5.60%	6.78%
Euro	A\$/euro	0.76	5.31%	7.69%
Japanese yen	A\$/yen	82.33	10.63%	4.11%
Trade-weighted Index		76.90	6.22%	5.78%

* 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

Keeping everyone on their toes, October and the early part of November has been a period of drama, anticipation and anxiety. All eyes were on Europe, as investor sentiment continues to reflect uncertain economic conditions.

US Economy

As a somewhat pleasant surprise, the US economy showed signs of stabilising despite remaining vulnerable as the economy's third quarter growth rate moved slightly higher. Not only did growth pick up from 1.3% in the second quarter to 2.5%, which is in line with the consensus, but there was clear evidence that private sector spending was the foundation of this acceleration which is a good sign.

Looking ahead there are also signs that employment growth is set to improve.

However, on the monetary policy front, Federal Reserve (Fed) Chairman Ben Bernanke again said that the Fed "expects a somewhat slower pace of economic growth over the coming quarters."

The Fed left rates steady at their November policy meeting, but the accompanying statement and Bernanke's post meeting press conference indicated the Fed stands ready to provide more stimulus should it be required.

While he did not rule out further monetary stimulus and said that the Fed is "prepared to take further action as appropriate", Bernanke also added that the Fed has no immediate plans for a third round of Quantitative Easing (QE).

It appears the Fed intends to hold its QE3 option in reserve, in case things get much worse. A number of members saw more QE "as potentially a more potent tool that should be retained as an option in the event that further policy action to support a stronger economic recovery was warranted".

Another positive sign was retail sales, which shows that consumers in the US are still buying. Retail sales rose 1.1% in September.

The rise was broad-based, with consumer spending on track to have grown at 1.75% (annualised) in the September quarter. This was despite tenuous consumer sentiment.

On an interesting note and something that doesn't occur very often, US 3-month Treasuries provided a negative yield in October. This signals that investors are willing to take a small loss in a flight to safety.

Europe

Economic and political uncertainty in Europe continues to emerge as the main reason for market volatility.

Starting in Greece, the Greek Parliament voted to pass the deeply unpopular property tax which is likely to be viewed favourably by those providing bailout monies.

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However, it's the political developments in Greece and Italy which developed at a furious pace through early November that made the headlines.

Initially announcing that a referendum would be held on austerity measures only to back down from the announcement shortly after, Greek Prime Minister George Papandreou met with the Opposition leader.

The outcome from the meeting was that Papandreou was to stand down as Prime Minister with a unity government put in place. The new fiscal plans are to be passed by Parliament and elections scheduled for February next year.

Lucas Papademos, an ex-European Central Bank Vice President, was appointed Prime Minister of a National Unity Government.

He will have the task of ensuring Greece gets its €8bn tranche of aid by December and the subsequent €130bn agreed at the Euro leaders conference.

Italy was also in the spotlight throughout October with several ratings agencies lowering the country's credit rating.

In early November, interest rates on Italian secondary market bonds continued to rise with growing pressure on Italy to reform its public finances.

Yet it is the Italian Premier, Silvio Berlusconi, who has grabbed headlines. Just recently, the Italian parliament's lower chamber passed reforms aimed at reducing debt with Berlusconi stepping down.

Similar to Greece, questions remain as to who is going to lead the country in the future with an interim government expected to be announced in the coming days.

At the end of October, European leaders stepped up their efforts to contain and resolve the debt crisis with a further grandiose plan announced in late October.

Ahead of the European Union (EU) leaders meeting, markets received a boost from a report that EU officials were examining ways to coordinate the recapitalisation of struggling European banks.

European markets initially rallied following the 26 October meeting and subsequent Euro Summit Statement aimed at tackling the region's debt issues.

Elsewhere in Europe on the economic front, signs are already emerging of weakness appearing in eurozone growth with downgrades in growth forecasts.

The Bank of England (BoE) and the European Central Bank (ECB) took further policy steps to support their economies and markets.

The BoE has little room to move on rates but announced more quantitative easing with their "asset purchase" program increasing from £200 billion to £275 billion.

This effectively means that the BoE will buy UK Government bonds which will be completed over the next four months.

At his last meeting as ECB President, Jean-Claude Trichet left the key policy rates unchanged at 1.5% in October.

However, at his first meeting as ECB President, Mario Draghi cut interest rates to 1.25%.

Draghi conceded that the eurozone may be heading for a "mild recession" at the end of the year and revealed that the decision to cut rates was unanimous. This reflects the deterioration in growth prospects as the sovereign debt crisis has unravelled.

China

On the surface, China's growth appears to be slowing, though at a measured pace to date, as monetary tightening begins to flow through the economy.

China's September quarter Gross Domestic Product rose by 9.1% year on year but was below the 9.3% market median forecast.

Despite being below market expectations, this outcome suggests that Chinese growth has been more robust to the global economic uncertainty than might have been expected.

China's inflation has eased in September and retail sales growth and industrial production slowed and were both below forecasts.

In a positive sign for Australia, China's domestic demand seems to have held up, signalled by slowing export growth while annual import growth accelerated.

Australia

On the home front, the Reserve Bank of Australia (RBA) eased monetary policy at its November meeting by cutting the cash rate by 0.25% after leaving rates on hold in October.

The official cash rate is currently set at 4.50%.

The RBA cut its forecasts for growth and inflation citing the downside risks to the global economy and Australia.

Inflation for the September quarter rose by 0.6% - or an annual rate of 3.5% year on year.

Nominal Australian retail sales for the month of September grew by 0.4% following the unrevised 0.6% growth in August.

It's the third month of consecutive growth, which is of some note, as that hasn't been seen for over six months.

Further good news for Australia came from the International Monetary Fund (IMF).

The annual review of Australia from the IMF shows that Australia continues to be relatively well placed compared to other parts of the globe.

The IMF said that Australia's performance since the global financial crisis has been "envious" and forecasts growth of almost 2% for 2011 and 3.5% for 2012 on the back of strong commodity demand and the resources investment boom.

However, the IMF noted that downside risks remain if global and Asian growth is to stall or capital market funding disruptions occur.

More broadly, the IMF called for tax reform including the removal of inefficient state taxes, citing stamp duties on house sales that discourage labour mobility.

Equity markets

Despite the concerns surrounding Europe, equity markets were generally positive with declines in European majors throughout September being reversed in October.

Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	-3.87%	7.06%	-0.24%	6.27%
	S&P/ASX 50 Acc.	-3.23%	6.66%	0.39%	6.75%
	S&P/ASX Small Ordinaries Acc.	-8.22%	12.63%	-2.09%	4.57%

In Australia, the All Ordinaries Index bounced back from the 6.9% fall in September to post a 7.1% gain over the month of October.

The gain was led by the Energy and Financials sectors which gained 12.2% and 10.3% respectively.

The more defensive sectors, while still generally in positive territory, underperformed the broader market. Telcos was the only sector to close lower over the month.

Sector	1 Mth	3 Mths	1 Yr
Energy	12.2%	-3.0%	-7.3%
Materials	7.9%	-10.4%	-9.1%
Industrial	7.0%	-3.1%	-6.5%
Consumer Discretionary	7.3%	1.8%	-13.5%
Consumer Staples	0.3%	3.3%	-1.7%
Health Care	1.5%	-3.7%	-4.3%
Financials	10.3%	4.4%	0.1%
Info Tech	1.9%	-4.9%	-21.8%
Telcos	-0.1%	8.0%	26.0%
Utilities	3.0%	3.4%	3.2%
Property	3.8%	1.9%	-2.4%

Big movers this month

Going up

↑ Energy +12.2%

Going down

↓ Telcos -0.1%

Australian dollar (AUD)

In currency markets, the Australian Dollar recovered against the United States Dollar rising from just under US\$0.97 at the start of the month to close out October just over US\$1.05. However, in the early part of November, the AUD has been trading closer to parity due to the volatile global economic and market uncertainty. The prospect that the RBA might continue to cut rates has also helped push the AUD lower.

Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. (\$A)	-6.06%	-5.85%	-7.27%	-1.40%
	MSCI World Index Hedged (\$A)	1.34%	7.67%	-3.23%	2.39%
	MSCI World Small Cap (\$A)	-4.56%	1.00%	-5.14%	0.98%
Emerging	MSCI Emerging Mkts Free	-14.74%	5.18%	0.00%	8.27%
	MSCI AC Far East Free (ex Japan)	-12.26%	5.91%	0.36%	6.50%

In the US, the Dow Jones posted a 9.5% gain for the month of October as the earnings season kicked off. The Dow Jones was one of the better performing indices over the month and has had a strong performance on both an absolute and relative basis.

Major European markets were also higher over October, with Germany (+11.6%) performing well taking the shine from the UK (+8.1%) which also posted solid gains. However, over the 12 months to 31 October 2011, both indices remained in negative territory being respectively 7.0% and 2.3% lower.

Elsewhere, Hong Kong's Hang Seng gained nearly 13% to be the best performing index but continues to underperform other majors over the past 12 months.

Property

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	-2.38%	-1.42%	-13.11%	-4.62%
Global	UBS Global Investors Index	-3.40%	-1.54%	-9.68%	N/A

The S&P/ASX 300 A-REIT Accumulation Index gained 3.8% in October but underperformed the broader Australian market.

Currency movements also impacted returns in the property space as unhedged global property underperformed domestic property with the hedged counterpart significantly outperforming.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	8.42%	6.90%	6.96%	6.34%
	Australian 90 Day Bank Bill	4.92%	4.32%	5.37%	5.48%
Global	BarCap Global Agregate Index	-3.85%	-6.43%	0.39%	1.26%
	BarCap Global Ag., Index Hedged	7.84%	10.67%	8.48%	7.49%

Both Australian and Global bonds were weaker over the month of October as shares recovered. Australian bonds, as measured by the UBS Composite Bond All Maturities Index fell almost 0.6%.

Globally, the rise of the Australian Dollar over October saw unhedged bonds, as measured by the BarCap Global Aggregate Index, underperformed their hedged counterparts. Unhedged global bonds fell around 7.2% over the month with their hedged counterparts gaining just over 0.3%.