



Market Update

Week in Review

Confidence that central bank policies around the world will spur economic growth and a generally upbeat assessment of the US economy by the Federal Reserve sent global equity markets higher last week, with benchmark indices in the US climbing to new all time highs, while domestically the S&P/ASX 200 snapped a three week losing streak.

Australian equities gained ground last week, with the S&P/ASX 200 advancing 0.27% to close at 5,419.48 while the Small Ords index recorded its biggest one week gain in over three months, jumping 1.92%. There was little data out last week on the economic front, with the RBA meeting minutes the only release of note. The June meeting minutes took a bit of a dovish tilt, relative to what we have seen in recent months. The idea that the outlook is shrouded in a fair degree of uncertainty, given the wide confidence intervals around the scale of the mining investment, and fiscal consolidation drags, is not new, and was highlighted in the last couple of statements on monetary policies. But whereas previous commentary had portrayed the risks around the central forecast as being balanced by the better cyclical news on the consumer, housing, and non-mining investment, there was less conviction in those positives in last week's release. In company news, one of the biggest announcements last week came from Woodside Petroleum (WPL) who confirmed that it would assist Shell in making an orderly exit of its 23.1% stake in the company. In the first stage, Shell sold down 9.5% (to 13.6%) via an institutional block trade that was completed last Wednesday, to be followed by another 9.5% exit to be undertaken by WPL in the form of a selective buyback. The share price closed the week 3.27% lower. A host of other companies came out during the week and either reaffirmed or cut guidance expectations for the second half of the year in what is known as 'confession season' in the lead up to reporting in a couple of months. Super Retail Group (SUL) disappointingly downgraded its guidance for the second time in just six weeks with weakened consumer sentiment having hurt the company's Leisure and Sports businesses in particular. While the share price closed the week 4.35% higher, the announcement adds further fuel to the well documented decline in retail spending post the May Federal Budget where sales have deteriorated, margins have fallen and six consumer companies have cut earnings guidance. On the positive side, Asciano (AIO) jumped 3.61% during the week after reiterating guidance and OceanaGold (OGC) surged 10.97% after the spot price of gold enjoyed its biggest single day gain in over nine months on Thursday on concerns over inflation.

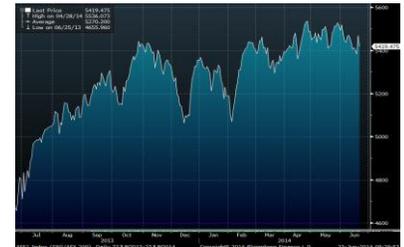
In the US, equity markets rebounded last week with the Dow Jones Industrials Average, S&P 500 and NASDAQ advancing 1.02%, 1.38% and 1.33% respectively, with all indices closing at new all time highs on Friday. The main focus for the week was on the Federal Open Market Committee (FOMC) meeting conducted over Wednesday and Thursday. There was some expectation that the FOMC could have been a little more hawkish given that economic data at the beginning of last week showed that the cost of living in the US had risen more than forecast in May i.e. that inflation may begin to be a concern. However, the statement that the FOMC expects rates to stay low for a 'considerable time' after the bond buying ends appeased equity markets. The Fed did however continue to trim its bond buying program by \$10 billion for a fifth meeting as expected, to \$35 billion per month, keeping it on pace to end the program later this

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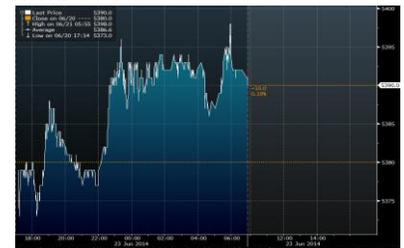
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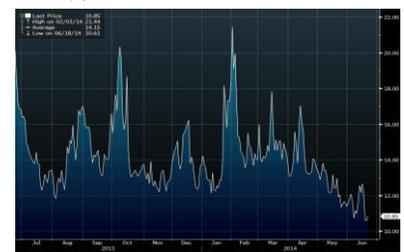
ASX 200 Price Index



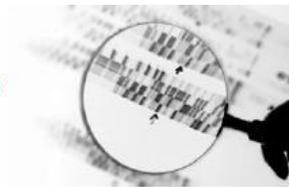
ASX 200 Futures Index



VIX Index



Source: Bloomberg. Levels as at 8.00AM AEST 23/06/14



year. Fed Chair Janet Yellen and her fellow policy makers continue to debate how long to keep interest rates near zero. Fed officials predicted their target interest rate will be 1.13% at the end of 2015 and 2.5% a year later, slightly higher than previously forecast. Central bank participants also estimated long-term growth for the US economy of 2.1% to 2.3%, compared with 2.2% to 2.3% in March and 2.5% to 2.8% way back in January 2010 in the wake of the most recent recession. In a separate release, housing starts in the US declined in May by 6.5% to 1.001 million. Despite the decline in the headline figure, there was some favourable news in the report as single family permits, an important forward looking indicator, increased 3.7% in May which is also a positive for domestically listed James Hardie (JHX) which ended the week relatively flat, up just 0.29%.

European equity markets were generally stronger last week, with the Stoxx Euro 600 index gaining 0.29% while the UK FTSE 100 and German DAX advanced 0.70% and 0.75%. Stocks in the UK rebounded after the prior week's speech from Bank of England governor Carney signalled a surprising change in tone and raised the prospect of rates moving higher from the fourth quarter of this year. Carney described the decision on rates as 'becoming more balanced'. He then went on to say that the first hike in rates 'could happen sooner than markets currently expect'.

Commodities: Gold: US\$1,314.85 (+2.97%), Brent Crude: US\$114.81 (+2.09%), Iron Ore: US\$92.10 (+1.32%)

Currencies: AUD/USD: 0.9388 (-0.15%), AUD/EUR: 0.6903 (-0.59%), AUD/GBP: 0.5518 (-0.45%), AUD/JPY: 95.829 (-0.12)

Once again it's very quiet on the domestic economic front this week, however offshore, the release of the Chinese manufacturing purchasing managers index (PMI) will be closely watched and could be a key indicator for which direction commodity prices move from here. In Europe, Ukraine may come back into headlines as the North Atlantic Treaty Organisation (NATO) foreign ministers meet to discuss the Nation and its relations with Russia along with other topics. Additionally, Ukraine's new president will sign his country's association and free-trade agreement with the European Union.



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Dated: 19 November 2010

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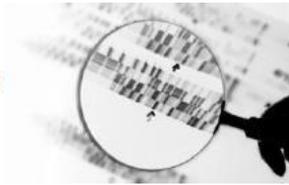
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