

- ▶ Sovereign debt concerns continue to trouble markets
- ▶ RBA leaves interest rates on hold
- ▶ AUD continues to fluctuate against USD

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### The pulse

- ↓ WTI Oil 3 Month Futures 9.9% to \$102.7 per barrel
- ↓ Iron Ore, Chinese Imports 6.4%

## May market performance

Equity Markets – Price Indices	Index	At Close 31/05/2011	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4788.92	-2.25%	7.53%
Japan	Nikkei	9693.73	-1.58%	-0.77%
Hong Kong	Hang Seng	23684.13	-0.15%	19.83%
UK	FTSE 100	5989.99	-1.32%	15.45%
Germany	DAX	7293.69	-2.94%	22.29%
US	Dow Jones	12569.79	-1.88%	24.00%
EMU <sup>1</sup>	Euro 100	2362.66	-1.47%	11.96%
World <sup>2</sup>	MSCI - Ex Aus (Gross)	931.65	-1.60%	7.62%

  

Property – Price Index	Index	At Close 31/05/2011	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	850.54	-0.13%	-0.19%

  

Interest Rates	At Close 31/05/2011	At Close 30/04/2011	At Close 31/05/2010
Aust 90 day Bank Bills	5.02%	4.92%	4.87%
Australian 10 year Bonds	5.21%	5.43%	5.37%
US 90 day T Bill	0.05%	0.04%	0.16%
US 10 year Bonds	3.06%	3.29%	3.30%

  

Currency <sup>3</sup>		At Close 31/05/2011	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	1.07	-2.71%	26.09%
British pound	A\$/STG	0.65	-1.19%	11.50%
Euro	A\$/euro	0.74	0.07%	7.81%
Japanese yen	A\$/yen	87.00	-2.32%	12.66%
Trade-weighted Index		77.70	-1.77%	15.11%

<sup>1</sup> Top 100 European stocks trading on the FTSE

<sup>2</sup> Price Index – Source: www.msci.com

<sup>3</sup> 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

Several themes are currently dominating economic and market developments. Some are familiar and some are emerging. Sovereign debt concerns in Europe, particularly Greece and weak economic data in the United States continue to trouble markets. Inflationary pressures in China and the impact of natural disasters in Australia and South-East Asia have also weighed on investors minds.

In the US, the second estimate of March quarter Gross Domestic Product (GDP), showed growth of 0.5% in the quarter which is largely unchanged from the preliminary estimate.

This suggests that the slow start to the year looks to have continued into April and May.

The slowdown in the manufacturing sector

seen in the most recent surveys was mirrored in industrial production.

Total industrial production was essentially flat in April, with the manufacturing component declining 0.4%. This was driven by a 13% fall in automobile production due to supply disruptions from the Japanese earthquake and tsunami.

Squeezed by increases in commodity prices, particularly oil, real personal consumption growth was only 0.1% for the month of April.

Supported by a pick-up in disposable income and a reduced savings rate, nominal consumer spending has been growing at a faster rate, but this hasn't been sufficient enough to combat the rise in prices.

The increase in prices is not solely due to high oil and food prices, but also reflects an increase in core inflation.

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On the positive side, employment readings in the various business surveys have been encouraging in the United States. But concerns still persist as initial jobless claim numbers stopped falling in April and grew further in May.

In Europe, a reasonably strong March quarter growth rate of 0.8% has been tempered by signs that economic expansion is slowing.

This isn't altogether surprising, given the tightening of economic policy across the Eurozone in an attempt to curb inflation. Fiscal policy is also becoming more restrictive as governments target lower fiscal deficits.

Weak economic growth isn't just expected in the peripheral Euro economies, such as Greece and Portugal, but is widespread across the continent with business surveys in core economies recording either flat or reduced growth over the past few months.

Domestically, the news out of Europe played a part in the Reserve Bank of Australia (RBA) leaving interest rates on hold in June, citing a softening in aspects of the local outlook as well as lingering sovereign debt issues in Europe.

However, the RBA said it hadn't changed its medium-term outlook for

Australia, which is for the economy to accelerate at or above trend growth and for inflation to rise above the RBA's 2% to 3% target band by the end of 2013.

The GDP release for the March quarter showed that the economy contracted 1.2%, the largest fall since the early 1990s recession. Much of the fall can be attributed to the temporary shutdown of coal mines, due to natural disasters in Queensland, which alone lopped 1.4 percentage points off GDP.

Outside the weather-affected sectors of mining and energy, agriculture and South-East Queensland manufacturing, the Australian economy was pretty solid.

Of note, one important outcome of the National Accounts data release was that the household saving ratio rose to 11.5%. This is amongst the highest readings since the 1980s.

A number of other leading indicators, such as building approvals and ANZ's job ads series, similarly indicate that the economy has softened into the June quarter.

In the Asian region, the tsunami and nuclear power plant emergency in Japan have had a bigger than expected impact on economic activity in the first quarter.

Real GDP fell by almost 1% in the March quarter and as the disaster occurred

in the middle of March, there's a good chance much of the adverse impact has yet to come through the data.

News out of China was mixed for April. While domestic demand remains solid, easing growth and a decline in production suggest policy tightening may be having some effect.

Authorities raised the reserve requirement ratio during the month (effective from 18 May) in response to a higher than expected inflation outcome and trade surplus.

The approach by China's central bank has so far been to use quantitative measures and administrative controls to address inflationary pressures.

And while there will likely be more adjustment to the reserve requirement ratio going forward, it wouldn't be surprising if there are one or two more interest rate hikes this year, with inflation expected to grow at well above the target rate of 4%.

## Big movers this month

### Going up

↑ Telcos 4.2%

### Going down

↓ Financials -4.9%

## Equity markets

After April's bounce, equities markets went into reverse in May. This time it was not so much heightened market anxiety about North Africa/Middle East tensions (where the situation in Libya and Yemen remains in a state of flux) but more concern about the momentum in the global economy weighing implicitly on earnings expectations.

## Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Australian</b>	S&P/ASX 300 Acc.	11.13%	-1.69%	3.19%	9.11%
	S&P/ASX 50 Acc.	10.21%	-0.83%	3.65%	9.17%
	S&P/ASX Small Ordinaries Acc.	18.07%	-4.77%	2.50%	8.94%

After closing April at 4823, the S&P/ASX 200 declined over the month of May and into the first part of June, dropping to within sight of the 4,500 level.

To 31 May 2011, the S&P/ASX 200 fell 2.4% for the month and 6.3% for the year.

Sector	1 Mth	3 Mths	1 Yr
<b>Energy</b>	-0.9%	0.1%	16.1%
<b>Materials</b>	-1.5%	-2.4%	22.0%
<b>Industrial</b>	0.9%	-2.2%	10.9%
<b>Consumer Discretionary</b>	-3.1%	-4.6%	-2.4%
<b>Consumer Staples</b>	0.5%	0.7%	11.5%
<b>Health Care</b>	-1.6%	0.3%	9.9%
<b>Financials</b>	-4.9%	-2.9%	4.8%
<b>Info Tech</b>	-3.6%	-4.4%	-10.8%
<b>Telcos</b>	4.2%	9.1%	13.1%
<b>Utilities</b>	0.4%	4.9%	14.6%
<b>Property</b>	0.0%	-1.7%	5.6%

## Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Global</b>	MSCI World Ex Aus Acc. (\$A)	0.47%	-5.49%	-4.49%	-0.24%
	MSCI World Index Hedged (\$A)	20.26%	-3.38%	0.26%	4.15%
	MSCI World Small Cap (\$A)	6.17%	1.02%	-2.49%	3.10%
<b>Emerging</b>	MSCI Emerging Mkts Free	1.42%	-2.52%	4.24%	11.45%
	MSCI AC Far East Free (ex Japan)	5.06%	0.77%	4.34%	8.79%

In the United States, the Dow Jones fell by just under 2% through the month of May as data released indicated economic growth has deteriorated further.

At its April meeting, the Federal Reserve (Fed) discussed an exit strategy from the extraordinary stimulus enacted over recent years, including the purchase of Treasury securities by the Fed.

While it's clear the Fed is doing a lot of thinking about what that strategy might be, it is not yet ready to begin removing the large degree of monetary stimulus, especially given the level of unemployment and spare capacity in the US economy.

After some gains in April, European markets gave up ground in May, broadly following the global trend.

The Euro STOXX Index fell 1.1% over May with the German DAX falling 2.9%. Over the year, the Indexes have respectively provided a positive 9.8% and 22.3% return.

## Property

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Australian</b>	S&P/ASX 300 A-REIT Acc	5.60%	-12.97%	-9.10%	-2.68%
<b>Global</b>	UBS Global Investors Index	7.95%	-4.41%	-5.06%	N/A

The S&P/ASX 300 A-REIT Accumulation Index was slightly lower over May, losing 0.02% and significantly underperforming its global counterpart which returned a positive 3.2%.

## Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Australian</b>	UBS Composite 0 + Years	6.40%	7.97%	6.42%	6.21%
	Australian 90 Day Bank Bill	4.90%	4.64%	5.48%	5.51%
<b>Global</b>	BarCap Global Agregate Index	-11.75%	2.19%	-0.24%	0.45%
	BarCap Global Ag,. Index Hedged	8.02%	9.40%	8.34%	7.70%

Australian bonds rose in May with the UBS Composite Bond Index gaining 1.3%.

This was a similar performance to global bonds as measured by the Barclays Capital (BarCap) Global Aggregate Index (Hedged) which returned 1.4% over the month of May.

## Australian dollar (AUD)

The Australian Dollar has fluctuated significantly over the past month. Having hit a high of 1.1012 in early May, the currency fell to a low of 1.0464 on 25 May.

The Australian Dollar closed out the month of May at 1.0672, representing a decline of 2.7% since the end of April.

NAB continues to expect the currency to trade in a broad range of 1.0000 to 1.1000 over the next six months, an unchanged view from last month.