

## Market Watch

April 2008

### In brief

The Reserve Bank of Australia **left interest rates unchanged at 7.25%** in April.

**Bond yields** rose as risk aversion subsided, and equities bounced.

**Australian shares** saw a strong advance.

**Better-than-expected earnings results** from investment banks caused a major **relief rally** on Wall Street.

The **US Federal Reserve** continued the series of **aggressive** rate actions, **lowering** its Fed Funds interest rate by 0.25% to **2.0%**.

### Cash

The Reserve Bank of Australia (RBA) left interest rates unchanged at 7.25% in April. Rates were kept on hold for the first time in three months as the RBA gauged the fallout from the global credit squeeze that has forced central banks around the world to cut borrowing costs.

### Australian bonds

Bond yields rose (prices fell) as risk aversion subsided somewhat. Australian bond market returns were flat (USBA Composite Bond All Maturities Index), with 10 year yields at 6.28% (up from 6.05% in March). A small rise in the USBA Corporate/Credit market (0.5%) was offset by a decline in government bonds (-0.4%).

Data released in April showed that core inflation (core CPI) rose 1.3% in the first quarter, and 4.2% year on year. This was greater than the 4% expected by economists, with higher fuel and fruit prices among the leading culprits. Petrol prices rose 5.4% in the first quarter and pharmaceuticals climbed 13.1%.

A spike in production input costs, which jumped 1.9% in the first quarter, increased concerns about growing inflation.

### International bonds

International bond markets fell 0.1% in April (Lehman Global Aggregate – hedged, \$A). Bond yields rose around the world, as bonds were sold off in favour of riskier assets. Yields on US 10 year bonds rose to 3.73%. Japanese bonds were sold off particularly sharply, on falling risk aversion as well as an unusually high CPI result.

The Federal Reserve continued the series of aggressive rate actions, lowering its main short term interest rate by 0.25% to 2.0% at the end of April. This was the seventh cut since the onset of the global credit squeeze. This came despite rising inflation numbers in the US, driven by rising fuel and food prices.

The Federal Reserve's decision to cut rates did not have a significant impact on the US Dollar and Treasury notes.

Advanced estimate GDP numbers show that the US economy grew 0.6% in the first quarter, slightly above the 0.4% forecast by economists. The number was boosted by a 5.5% rise in exports, helped by the fall in the US Dollar in recent quarters.

### Australian listed property securities

The S&P/ASX 300 Property Trust Accumulation index was up 4.2% in April, the first positive return from Australian Property since September 2007. Listed Property Trusts (LPTs) underperformed the Australian equity market over a 3 month (-1.7%), 6 month (-10.8%) and 1 year (-17.7%) period.

Commercial (4.6%) and Retail (0.1%) led the way, outperforming the LPT index. The Leaders (-1.0%), Diversified (-0.9%), and Industrial (-1.0%) sectors underperformed the LPT index as did Real Estate Managers & Developers (-6.4%).

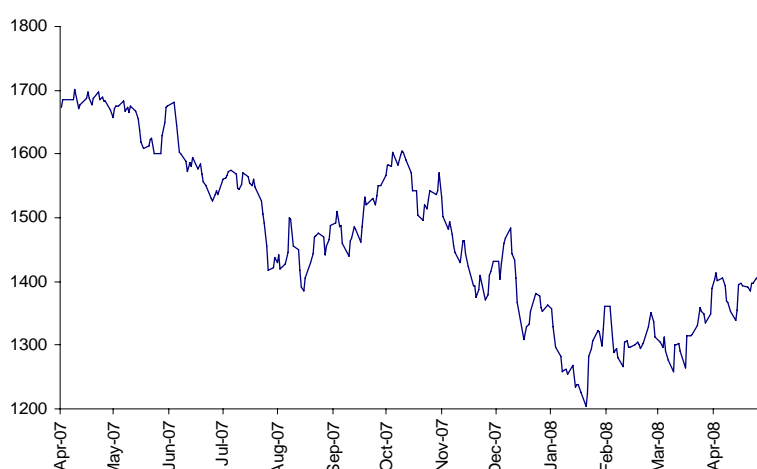
The top performers were Centro Properties Group, which was up 51.7% in April (down 33.3% in March). Other top performers were Centro Retail Group (41.2%), Macquarie DDR Trust (36.5%), APN European Retail Trust (31.1%) and Macquarie CountryWide Trust (18.4%). The worst performing trusts for the month were ING Industrial Trust (-1.9%) and Valad Property Group (-1.5%).

## International listed property securities

The UBS Global Investors Index (hedged, \$A) rose 3.9% in April, with Hong Kong (7.5%) and Japan (6.1%) the best performers, recovering from a difficult March. Europe (up 1.4%) and the UK (-4.9%) were the worst performers.

Whilst there are some concerns about the performance of REITs, much of the risks have been reflected in their stock prices. Despite a slowing economy, commercial real estate fundamentals remain healthy, with high current occupancies and limited levels of new supply. In addition, earnings growth for many companies have benefited from strong rental growth over the last few years.

The graph below shows the performance of global REITs over the last year (to 30 April).



source: bloomberg

## Australian shares

The S&P 200 Accumulation Index returned 4.5% in April. The best performing large cap stocks during the month were Allco Finance Group (121.1%), Origin Energy (52.3%) and Centro Properties Group (51.7%). The worst performers were Aristocrat Leisure (-21.8%), Tatts Group (-21.6%) and Toll Holdings (-20.9%).

The best performing sectors in April were Energy (10.1%), Materials (9.3%) and Utilities (7.6%). The worst performing sectors were Consumer Staples (-1.1%), Industrials (-2.4%) and Consumer Discretionary (-6.4%).

An Australian market top-heavy with resource stocks saw a strong advance in April. However the rally was very narrow with BHP's 18% rise (its best monthly return in almost nine years) accounting for nearly half the market gain. Other commodity names (Fortescue 13.8%, Rio Tinto 11.1%) continued to rebound sharply from the March correction, with their service providers (Bradken, Downer EDI, Worley, United) also benefiting. M&A action saw insurers (QBE/IAG) and Origin also amongst the winners.

The positive sentiment toward US investment banks saw local financial stocks (Allco, Challenger, Macquarie) also bounce hard, as did some similarly suffering geared utilities and REITs. Dampening market gains were consumer discretionary stocks as the domestic economic outlook worsened. The Victorian government announced regulatory changes impacting gambling stocks like Tatts Group and Tabcorp. Companies with significant exposure to the US (Billabong, James Hardie, News Corp) continued to suffer, especially Brambles as Wal-Mart flagged a review of its pallet arrangements.

## International shares

The MSCI World ex Australia Index (hedged, \$A) was up 6.3% in April. Some better-than-expected earnings results from investment banks caused a relief rally on Wall Street. Citigroup, Deutsche Bank and JP Morgan reported results that were not as bad as feared. Wells Fargo gave a positive outlook statement while UBS surged despite another sub-prime writedown, big quarterly loss and a capital raising.

The increased optimism helped cyclical IT and resource stocks to be amongst the best performers, the latter buoyed by commodity price increases. Good results reported by Apple, Boeing, Caterpillar, Google and Ford helped keep the mood positive. The continuing weak trend in US economic data did little to deter buyers. However some financial stocks continued to suffer, with poor results and/or writeoffs reported by Bank of America, National City and bond insurer, Ambac. Quarterly results from Alcoa, GE and Pfizer also disappointed.

European markets surged over April (France 6.2%, Germany 6.3%, and the UK 6.8%). UK mining and oil shares enjoyed double-digit gains with coking coal price rises and M&A rumours adding to the positive tone. M&A speculation also helped beaten-up financials (such as Société Générale) to recover some lost ground. Japan surged (up 10.6%) on the positive lead from US cyclicals.

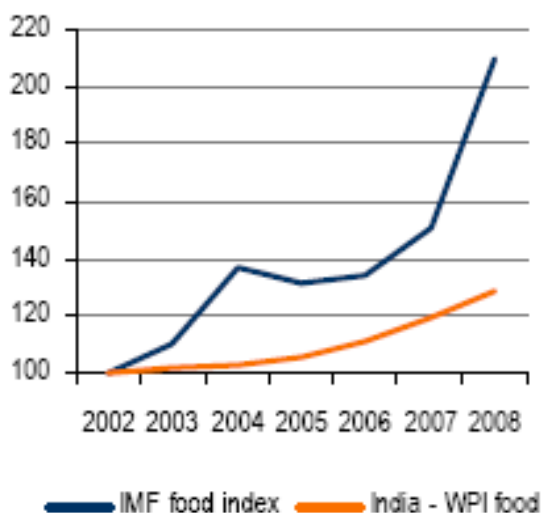
## Global emerging markets

The MSCI EM Index (in \$A, div reinvested) rose 4.7% in April, underperforming developed markets. Asian market performance was impacted not only by credit problems, but the realisation that rising production costs have had a tangible impact on company earnings.

Rice, which has become the most important global commodity after oil, hit a record high of \$US1000 a tonne. This is a 300% increase year-to-date, with China, Vietnam, India and Cambodia placing export restrictions on rice. Traders expect prices to continue to rise as many countries build up their 'strategic' supplies. Stockpiles of grains such as rice are at a 26 year low.

The two biggest factors currently driving food prices are the rapid economic development of China and India and the soaring price of crude oil, which is increasing the demand and production of biofuel. Soft commodities are also being used as a hedge against the weakening US Dollar by speculators, which is further inflating prices.

The graph below shows the increase in agflation (an increase in the price of agricultural produce) over the last few years. This is a major contributor driving inflation in developing countries.



source: IMF

Some analysts believe that structural changes – most importantly the emergence of China's 1.3 billion population – have structurally altered the demand side of the agricultural price equation. The World Bank estimates that a doubling of food prices over the last three years could potentially push 100 million people in emerging economies deeper into poverty.

## Investment markets data

**table 1 - investment market performance to 30 April 2008**

asset class	index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Cash Sector	UBSA Bank Bill Index	0.7	1.9	3.7	7.1	6.7	6.4	6.0
Australian Fixed Interest Sector	UBSA Composite Bond Index	0.0	1.0	2.5	3.6	4.3	4.4	4.6
International Fixed Interest Sector	Lehman Global Aggregate (Hedged)	-0.1	0.8	4.3	7.4	7.2	5.8	6.5
Australian Property Sector	S&P/ASX 300 Property Trust Accum Index	4.2	-1.7	-26.4	-23.6	0.9	6.3	10.2
International Property Sector	UBS Global Investors Index (\$A Hedged)	3.9	4.6	-11.3	-18.6	2.8	n/a	n/a
Australian Share Sector	S&P/ASX 300 Accum Index	4.5	0.3	-15.6	-5.9	7.4	16.7	18.1
International Share (Unhedged) Sector	MSCI World Ex Australia (\$A Unhedged)	1.9	-1.9	-10.7	-14.1	-4.4	5.3	5.9
International Share (Hedged) Sector	MSCI World Ex Australia (\$A Hedged)	6.3	2.9	-10.0	-5.6	4.7	12.2	15.0
International Smaller Companies	S&P/Citigroup World <US\$1.5bn Cap (AUD Unhedged Net Div)	-1.0	-3.2	-16.8	-22.1	-11.2	n/a	n/a
Global Emerging Markets	MSCI EM in \$A (div reinvested)	4.7	4.1	-11.8	10.7	9.1	25.7	24.7

**table 2 - breakdown of Australian & international fixed interest market performance to 30 April 2008**

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	0.5	0.6	1.4	2.4	3.9	4.3	4.7
	UBSA Government/Treasuries	-0.4	1.2	3.2	4.7	4.7	4.4	4.6
	UBSA Semi-Government	-0.2	1.2	3.2	4.2	4.5	4.5	4.6
Int'l Fixed Interest	Lehman Global Aggregate Credit (Hedged)	0.8	0.3	2.4	4.6	5.9	4.9	6.2
	Lehman Global Aggregate Government (Hedged)	-0.6	0.8	4.7	8.2	7.5	6.0	6.6
	Lehman Global Aggregate Securitised (Hedged)	0.2	1.2	5.1	8.2	7.8	6.2	6.8

**table 3 – performance of major Australian share market indices to 30 April 2008**

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	6.1	1.3	-14.3	-0.1	8.3	18.0	16.9
S&P/ASX 50 Leaders Accum index	5.3	0.7	-15.0	-4.6	7.1	16.3	17.2
S&P/ASX 100 Accum Index	4.6	0.0	-15.4	-5.5	7.1	16.4	17.7
S&P/ASX 200 Accum Index	4.5	0.4	-15.4	-5.6	7.4	16.7	18.1
S&P/ASX 300 Accum Index	4.5	0.3	-15.6	-5.9	7.4	16.7	18.1

**table 4 - breakdown of Australian share market performance by sector to 30 April 2008\***

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	-6.4	-15.9	-28.3	-31.4	-5.3	2.7	6.3
Consumer Staples	-1.1	2.5	-9.2	-3.6	16.1	17.8	16.5
Energy	10.3	21.7	6.0	30.1	18.5	31.6	36.9
Financials	4.2	-7.0	-25.7	-21.5	-1.2	8.9	12.1
Financials Ex Property Trusts	4.2	-8.3	-25.4	-20.9	-1.8	9.7	12.6
Health Care	6.4	4.8	-1.1	10.0	16.1	26.4	24.8
Industrials	-2.4	-8.7	-27.0	-20.6	2.1	8.1	14.9
Information Technology	1.0	6.7	-11.5	-24.9	4.1	15.7	23.8
Materials	9.3	10.4	-2.7	30.9	20.1	36.4	33.2
Property Trusts	4.2	-1.7	-26.4	-23.6	0.9	6.3	10.2
Telecommunications	2.8	6.5	-2.1	0.6	13.6	5.1	8.8
Utilities	7.6	2.7	-10.9	-17.1	3.6	11.9	16.6

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

**top 5 performing Australian shares in April 2008\***

share	return %
Allco Finance Group Limited	121.05
Origin Energy Limited	52.29
Centro Properties Group.	51.67
Macquarie Group Limited	20.07
Insurance Australia Group Limited	18.85

**bottom 5 performing Australian shares in April 2008\***

share	return %
Lihir Gold Limited.	-18.11
Tabcorp Holdings Limited	-19.29
Toll Holdings Limited	-20.86
Tatts Group Limited	-21.55
Aristocrat Leisure Limited	-21.77

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

**table 5 - breakdown of international shares market performance by country to 30 April 2008**

	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
United States: S&P 500	4.8	0.5	-10.6	-6.5	2.8	6.2	8.6
Germany: DAX	6.3	1.4	-13.3	-6.2	7.5	18.4	18.8
United Kingdom: FTSE 100	6.8	3.5	-9.4	-5.6	0.5	8.2	9.2
France: CAC	6.1	2.6	-14.6	-16.2	-1.9	8.5	11.1
Japan: Nikkei	10.6	1.9	-17.3	-20.4	-9.5	8.0	12.1
Hong Kong: Hang Seng	12.7	9.8	-17.9	26.8	24.3	22.8	24.2

Note: All returns are calculated in local currencies.

**table 6 - breakdown of international shares market performance by sector to 30 April 2008\***

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	3.5	-2.7	-18.7	-20.4	-5.2	3.2	6.8
Consumer Staples	0.8	2.0	-4.7	-0.9	8.4	9.4	9.9
Energy	12.3	15.9	3.8	19.7	11.6	19.2	21.7
Financials	7.3	-2.2	-18.9	-24.4	-9.0	2.6	7.0
Health Care	1.8	-5.6	-12.4	-15.1	-3.0	0.7	3.5
Industrials	3.9	2.1	-13.2	-7.4	2.2	10.7	13.9
Information Technology	7.9	2.7	-16.2	-3.3	2.3	8.8	9.3
Materials	8.0	8.2	-2.5	13.4	14.7	24.5	22.4
Telecommunications	5.0	-6.1	-17.1	-8.0	5.7	5.8	6.2
Utilities	4.3	-0.3	-7.3	-4.1	11.0	13.3	15.3

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

Note: All returns are calculated in local currencies.

## Economic indicators

	quarter	year
<b>economic growth</b>		
Australian GDP	0.6% (Dec 07)	3.9% (to Dec 07)
United States GDP (annualised)	0.6% (Mar 08)	2.5% (to Mar 08)
<b>inflation</b>		
Australian CPI	1.3% (Mar 08)	4.2% (Mar 08)
United States CPI	-	4.0% (Mar 08)
<b>unemployment</b>		
Australian Unemployment Rate	-	4.1% (to Mar 08)
United States Unemployment Rate	-	5.0% (to Apr 08)
	<b>at 30 April</b>	<b>at 31 March</b>
<b>official interest rates</b>		
RBA cash rate	7.25	7.25
US Fed Funds rate	2.0	2.25
<b>10 year bond yields</b>		
Australian Interest Rates - 10 year bond yield	6.28	6.05
United States Interest Rates - 10 year bond yield	3.73	3.41
<b>exchange rates</b>		
AUD/USD Exchange Rate	0.9424	0.9129
AUD/EUR Exchange Rate	0.6053	0.5761
AUD/GBP Exchange Rate	0.4758	0.4593
AUD/JPY Exchange Rate	98.4850	90.8605

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