June 2014

In the US, the final real GDP data that was released in June for the first quarter of 2014 was worse than expected at -2.9%. There was no reaction from the market suggesting that investors have already written off the US economy's first quarter performance as a result of their adverse weather conditions.

Subsequently, June's nonfarm payrolls surprised on the upside with an additional 288,000 jobs being created. This resulted in the unemployment rate declining from 6.3% to 6.1%. Combined with positive manufacturing purchasing manager index, the US recovery looks to be progressing solidly. Markit and ISM PMI came out at 57.3 and 55.3 respectively.

The June Federal Open Market Committee (FOMC) meeting minutes disclosed discussions on their exit strategy post QE-tapering. This included discussions around the timing of gradually reducing the reinvestment of repaid bond principal and using interest on excess reserves (IOER) and overnight reverse repos facilities to manage interest rates.

In addition, the US Federal Reserve Chair, Janet Yellen commented positively about using macro-prudential policies as the effects of monetary policy on "excessive leverage and maturity transformation are not well understood and are less direct than a regulatory or supervisory approach".

After the European Central Bank (ECB)'s historical negative deposit rate announcement last month, it has left it unchanged in June. With the flash harmonised index of consumer prices (HICP) holding steady at 0.5% y/y, it was not necessary for the ECB to act further this month. Elsewhere in Europe, final Q1 GDP growth for the UK was strong at 3.0% y/y. The Bank of England made no changes to their interest rate in June but highlighted their surprise at how low the market is pricing the likelihood of interest rates increasing before the end of 2014. It is like that his statement was made to prepare the market for the upcoming rate rise.

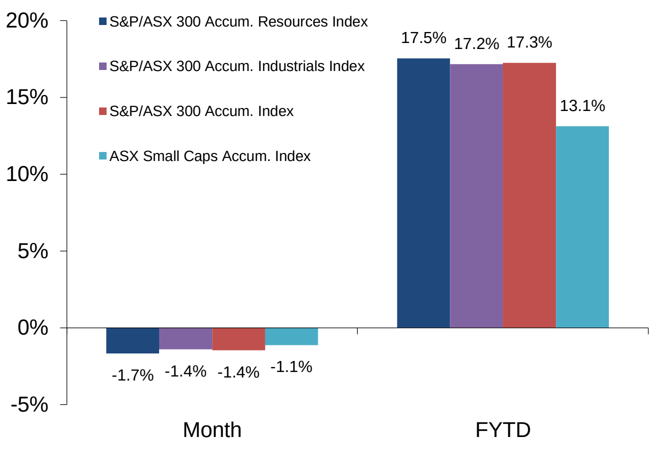
The mini stimulus carried out by the Chinese government several months ago appears to be taking effect on the economy as the official PMI increased to 51.0. This was a broad-based increase with all the PMI's sub-indices improving. On policies, the China Banking Regulatory Commission announced the easing of loan-to-deposit ratio requirements during the month in an effort to expand lending capacity of Chinese banks. Chinese inflation (2.3% y/y) was also within the government's target range to allow them to continue their stimulatory policies.

In Japan, the expected negative impact of the sales tax hike in April continues to be observed in the data. Japanese household spending and retail sales both contracted in May. Inflation also appears to be decelerating. Surprisingly though, there were bright spots for the Japanese economy with the unemployment rate falling to 3.5% and their PMI reading rising from 49.9 to 51.5.

In emerging markets, trouble is brewing for Argentina which entered into technical default on 1 July. But it still has a 30 day grace period to settle with creditors in order to avoid a default. This has been due to a 12 year legal battle with hedge funds that refused to take write-downs on their debt investments back when Argentina defaulted in 2001.

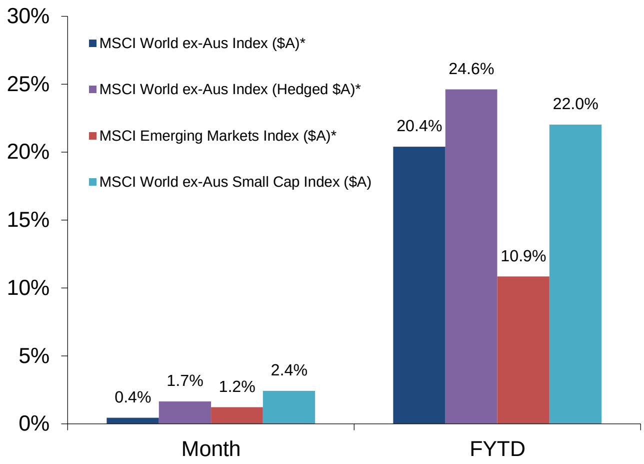
Domestically, the Reserve Bank kept interest rates unchanged at 2.5% in their July Board meeting. The labour force survey released in July showed that Australian unemployment rate edged higher to 6.0% from 5.8%. This is despite the economy adding 15,900 new jobs. The unemployment rate rose due to an increase in the labour force participation.

Australian equities



Australian equities closed the June month in negative territory (-1.4%). This was broad-based move by the market with both the Resources sector (-1.7%) and Industrials sector (-1.4%) falling. Small caps (-1.1%) did not fall as much relative to the broader market in June.

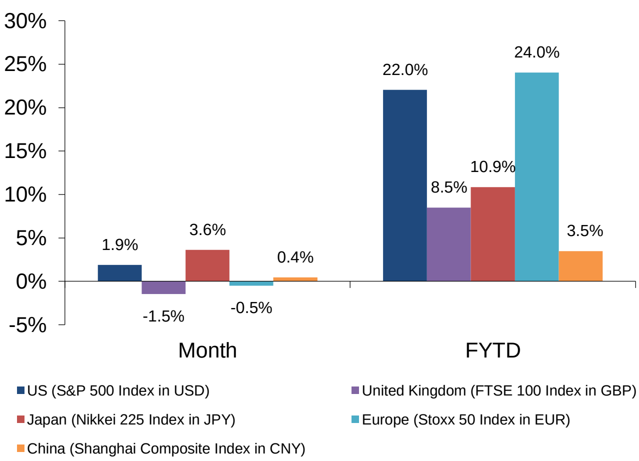
International equities ($A)



From an Australian investors' perspective, international equities outperformed Australian equities in June. International small caps were the top performers (+2.4%). Regionally, in developed markets the US was the main contributor to the performance of its index. In emerging markets Brazil, Taiwan and China were strong contributors to the performance of its index.

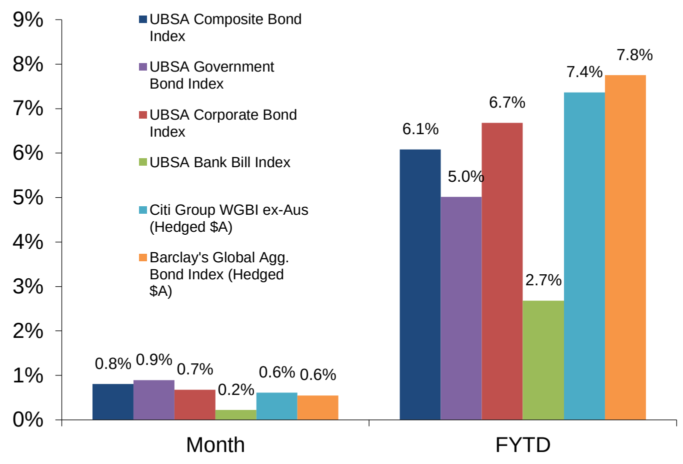
The Australian dollar appreciated over the month resulting in hedged international equities outperforming its unhedged equivalents.

International equities (local currencies)



In local currency term, Japanese equities had the strongest performance in June. The US also experienced a positive month while Europe ended the month negatively.

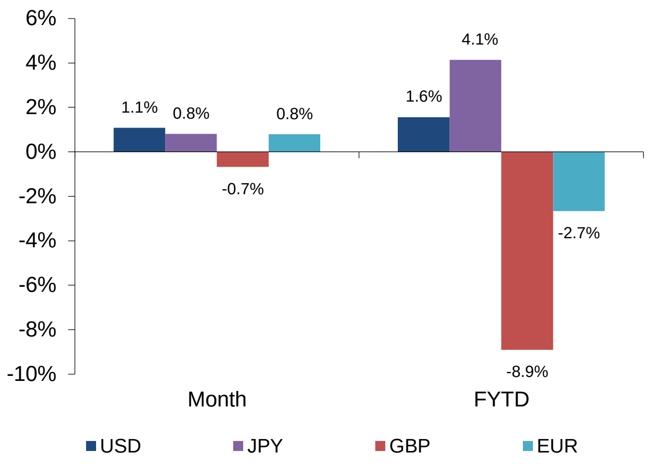
Fixed income



Australian and international fixed interest recorded positive returns over the month. Yields for Australian government bonds fell across the curve (more significantly at the longer end) while US yields rose, ensuring that Australian outperformed international fixed interest.

Over the month, peripheral European government bond yields were mixed. Spanish and Italian 10 year government bond yields continue to decline after falling below 3% last month.

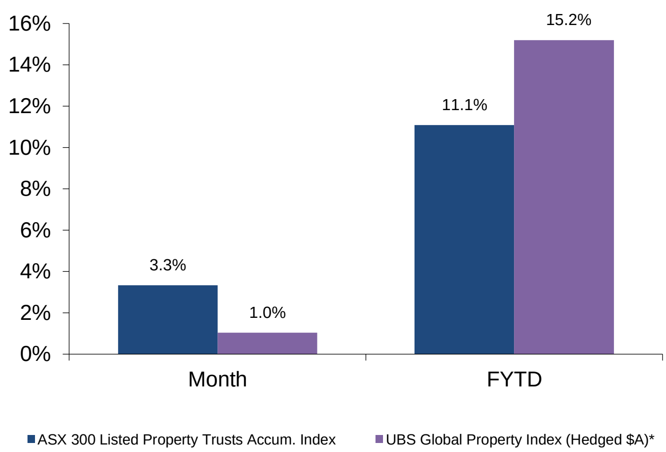
Australian dollar against major currencies



The Australian dollar appreciated against most major currencies over the month with the exception of the British Pound.

Over the financial year to date, the Australian dollar has depreciated against the British Pound the most. The UK looks likely to be the first of the major developed countries to raise their interest rates as their economy has improved at a remarkable rate.

Property



The Australian listed property sector outperformed its international counterparts over June. However, over the financial year to date, international continues to outperform Australian listed property securities.

30 June 2014	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	45,351	-1.4%	0.9%	17.3%	17.3%
S&P/ASX 300 Accum. Industrials Index	88,326	-1.4%	1.3%	17.2%	17.2%
S&P/ASX 300 Accum. Resources Index	21,434	-1.7%	-0.7%	17.5%	17.5%
ASX Small Caps Accum. Index	5,328	-1.1%	-2.3%	13.1%	13.1%
International equities					
MSCI World ex-Aus Index ($A)*	5,455	0.4%	3.0%	20.4%	20.4%
MSCI World ex-Aus Index (Hedged $A)*	1,129	1.7%	5.1%	24.6%	24.6%
MSCI Emerging Markets Index ($A)*	462	1.2%	4.7%	10.9%	10.9%
MSCI World ex-Aus Small Cap Index ($A)	357	2.4%	1.1%	22.0%	22.0%
US (S&P 500 Index in USD)	1,960	1.9%	4.7%	22.0%	22.0%
United Kingdom (FTSE 100 Index in GBP)	6,744	-1.5%	2.2%	8.5%	8.5%
Japan (Nikkei 225 Index in JPY)	15,162	3.6%	2.3%	10.9%	10.9%
Europe (Stoxx 50 Index in EUR)	3,228	-0.5%	2.1%	24.0%	24.0%
China (Shanghai Composite Index in CNY)	2,048	0.4%	0.7%	3.5%	3.5%
AUD versus …					
USD	0.94	1.1%	2.2%	1.6%	1.6%
JPY	95.43	0.8%	0.6%	4.1%	4.1%
GBP	0.55	-0.7%	-0.2%	-8.9%	-8.9%
EUR	0.69	0.8%	3.0%	-2.7%	-2.7%
Property					
ASX 300 Listed Property Trusts Accum. Index	30,253	3.3%	9.2%	11.1%	11.1%
UBS Global Property Index (Hedged $A)*	1,873	1.0%	8.1%	15.2%	15.2%
Australian Fixed Interest					
UBSA Composite Bond Index	7,950	0.8%	3.1%	6.1%	6.1%
UBSA Government Bond Index	8,261	0.9%	3.3%	5.0%	5.0%
UBSA Corporate Bond Index	8,123	0.7%	2.5%	6.7%	6.7%
UBSA Bank Bill Index	8,064	0.2%	0.7%	2.7%	2.7%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	0.6%	2.4%	7.4%	7.4%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.6%	2.6%	7.8%	7.8%
Oil and commodities					
Crude Oil ($/bbl)	105	2.6%	3.7%	9.1%	9.1%
Copper Spot ($/tonne)	7,041	1.8%	5.9%	4.6%	4.6%
Gold Spot ($/ounce)	1,322	6.1%	3.0%	7.5%	7.4%
Fixed income (yields) as at …	**30-Jun-14**	**31-May-14**	**31-Mar-14**	**30-Jun-13**	**30-Jun-13**
Australia Bank Bill	2.68	2.69	2.65	2.79	2.79
Australia 10 Year Government Bond	3.54	3.66	4.08	3.76	3.76
US 10 Year Government Bond	2.53	2.48	2.72	2.49	2.49
UK 10 Year Government Bond	2.67	2.57	2.74	2.44	2.44
Germany 10 Year Government Bond	1.25	1.36	1.57	1.73	1.73
Japan 10 Year Government Bond	0.57	0.58	0.64	0.85	0.85

* Net dividends reinvested