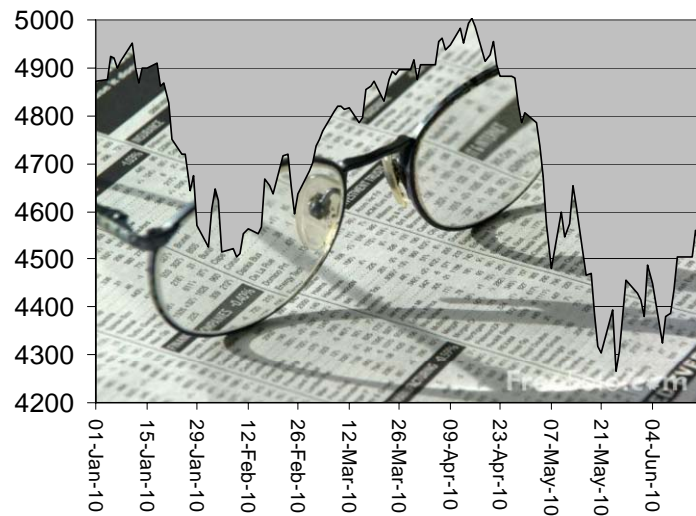


# Investment Managers Weekly Review

18 JUNE 2010

## PERFORMANCE AT A GLANCE

WEEKLY MARKET WRAP		
Aust Market	4527.3	2.1%
US Market	10434.17	1.7%
Japan Market	9999.4	
UK Market	5253.89	0.8%
GOLD	1248.7	3.2%
OIL	76.6	2.7%
A\$US\$	0.8683	2.8%



THE AUSTRALIAN SHARE MARKET - YEAR TO DATE

## Market Wrap

### Australian Market Performance (S&P/ASX 200): 4,527 +2.1%

The Australian market has posted another week of gains on the back of a renewed shift in confidence levels both locally, and globally. The S&P/ASX 200 Index increased by 92 points or 2%. The market remains volatile with the volatility index (VIX) sitting at a value of around 25, falling from the mid 30s in the last week. The debate over the resources super-profit tax has remained in the spotlight with Wesfarmers being the latest company to object to the tax. QBE Insurance came out with a market update clarifying the performance of its northern hemisphere businesses.

### Super-Profits Tax

The resource sector had another strong performance this week on the back of Kevin Rudd's change in stance towards the resources tax, whereby he is now open to negotiations. This follows Resources Minister Martin Ferguson's comments that "one size does not fit all," and those negotiations would take place and vary according to the type of commodity being taxed. Wesfarmers chairman Bob Every this week warned shareholders that the tax would go "well beyond" the mining assets and would harm the national economy.

## **QBE Market Update – 16-Jun-10**

The QBE Insurance share price has been under pressure lately mainly attributed to two causes: their exposure to the Gulf of Mexico oil spill, and the downgrade reported by their competitor IAG Insurance in relation to reduced margins in its UK businesses. QBE's market update has corrected these market fears. Although QBE is exposed to the Gulf of Mexico oil spill, their exposure is limited (or capped) due to their re-insurance cover. IAG has reported that margins on its UK business had fallen significantly from 10-11% to 5-6% margin. QBE responded to this negativity by re-affirming its own margin guidance of 16-18%. QBE has a long history of strong insurance margins significantly higher than its international peers, and the current weakness in the share price is an anomaly that has presented a buying opportunity with the 2 year forward P/E of 9.3 and a yield over 7%.

## **IMF Report**

The International Monetary Fund released a report on the future of the Asian Economy (including Australia). The report conveyed the IMF's view that Asia as a block will grow by 50% over the next five years. As expected this will be led by China and India and Australia has quite an important role to play within this growth. As we see China and India continue to develop and grow, we expect demand for commodities and energy to remain strong and, hence, Australia is set to ride the Asian growth story fuelled by demand for energy and commodities.

## **US Markets**

The US markets continued their rally this week with the Dow Jones gaining a further 2% as signs of fear related to Europe's sovereign debt issues subside. The US reporting the largest fall in housing starts in more than a year on Wednesday as the sector continues to lag with an oversupply. The fact that housing starts had fallen so much was not a surprise to many analysts who were predicting a steep fall due to inflated figures spurred by government grants, which ended last month. We saw a similar fall in the clearance rates of home sales in our market as the first homebuyers grant was reduced.

## **EU Markets - Spanish Debt Auction**

European equities also climbed for a seventh straight session, their longest winning streak in 11 months, as robust demand in a Spanish bond auction boosted investor confidence in the euro zone economic outlook. Spain drew strong demand for 10- and 30-year bond issues on Thursday, selling 3.5 billion euros at the top of its target range, although it paid a hefty premium compared with previous issues of the same paper. The Spain/Germany 10-year bond yield spread narrowed to 222 basis points following the auction result, from about 236 basis points beforehand.

## **Emerging Costs in the Gulf of Mexico**

Due to pressure from the US government, BP has agreed to setup a \$20B USD fund to deal with claims from those directly affected by the oil spill. BP has also suspended dividends for the next nine months to help finance the fund in what has become America's worst natural disaster. BP's share price has fallen by almost 50% since the spill first began back in April.

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