

Market Wrap

at 30 July 2008

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Households have entered a phase of consolidation in the face of high interest rates, soaring petrol prices and tumbling equity markets. Retail data has confirmed that many households have scaled back their spending, with retail sales falling by 1.0% in June (in nominal terms), the largest monthly fall in six years. Housing credit and personal credit have both slowed sharply so far this year. Of particular note is the slowdown in housing credit growth to the slowest quarterly annualised pace since late 1989.

The S&P/ASX 200 Accumulation Index fell 7.5% in June, impacted by falls in offshore markets. Continued problems in the US housing market have led to further write downs for banks and agencies, causing a widespread loss of confidence in the financial sector. Locally, consumers are showing signs of demand restraint and this has raised concerns over the outlook for earnings.

Global Economic Overview

World

- › Slowing growth and rising inflation remain the global economic themes for 2008.
- › Credit restraint and low confidence levels augur for steady to easier global monetary policy.

United States

- › The tax rebate benefit to consumers appears short-lived, while housing stress remains.
- › Inflation pressures continue amidst economic weakness, creating a policy challenge for the Fed.

Europe

- › Confidence levels have fallen over recent months, as economic weakness broadens.
- › European Central Bank rhetoric on inflation implies further tightening is likely, which should slow growth further.

Japan

- › Survey evidence shows a softening in corporate demand, while household demand is picking up.
- › The current negative real interest rate environment should provide some support to the economy.

Australia

- › Consumers are clearly tightening their belts, with a similar easing evident in broader economic activity.
- › Monetary conditions remain tight and no change to official interest rates is anticipated this year.

Asset Class Overview

International Shares (Benchmark)

- › The MSCI World (ex Aust, \$A) Index fell by 8.6% in June, with returns to Australian investors marginally improved by a decline in the \$A.
- › A sustained fall in the oil price is required before shares can rally from their recent lows.

Australian Shares (Overweight)

- › The S&P/ASX 300 Accumulation Index fell 7.5% in June, impacted by falls in offshore markets.
- › Valuations have become more constructive, leading us to a cautiously positive outlook.

Fixed Interest (Underweight)

- › Global and local bond markets both rose 0.29% in June, as sovereign bonds benefited from heightened credit concerns and weakness in the equity markets.

Property Securities (Underweight)

- › Global property securities fell 10.5% in June, as inflation and credit concerns weighed on earnings prospects and capital values.
- › Local property securities fell 10.9% in June, weighed down by dilutive equity issuance and underwritten Dividend Re-investment Programs.

If you have any questions, please speak to your ANZ Financial Planner.

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