



GODFREY PEMBROKE

market update

- ▶ Australian business confidence improved in December
- ▶ China's growth accelerates for the first time in two years
- ▶ RBA leaves cash rate steady at 3.00% at February meeting

What's inside?

- ▶ Equity markets page 2
- ▶ Australian dollar page 4

January market performance

Equity Markets – Price Indices	Index	At Close 31/01/13	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4901.01	5.07%	13.30%
Japan	Nikkei	11138.66	7.15%	26.54%
Hong Kong	Hang Seng	23729.53	4.73%	16.38%
UK	FTSE 100	6276.88	6.43%	10.48%
Germany	DAX	7776.05	2.15%	20.39%
US	Dow Jones	13860.58	5.77%	9.72%
EMU*	Euro 100	2388.15	2.72%	10.34%
World**	MSCI – Ex Aus (Gross)	991.77	5.29%	14.16%
Property – Price Index	Index	At Close 31/01/13	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	999.79	4.27%	23.77%
Interest Rates		At Close 31/01/13	At Close 31/12/12	At Close 31/01/12
Aust 90 day Bank Bills		2.95%	3.11%	4.34%
Australian 10 year Bonds		3.46%	3.27%	3.72%
US 90 day T Bill		0.06%	0.05%	0.06%
US 10 year Bonds		1.98%	1.76%	1.79%
Currency***		At Close 31/01/13	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	1.04	0.28%	-1.88%
British pound	A\$/STG	0.66	2.77%	-2.44%
Euro	A\$/euro	0.77	-2.55%	-5.41%
Japanese yen	A\$/yen	95.65	6.13%	18.07%
Trade-weighted Index		77.70	0.78%	-0.26%

* Top 100 European stocks trading on the FTSE ** Price Index – Source: www.msci.com

*** 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

Global economies returned mixed results last month, with Europe continuing to struggle, while the US and China started to show signs of improvement.

US Economy

Over in the US, the economy continued to show signs of further strengthening as employment figures showed a large fall in first time jobless claims in January.

The fall was largely unexpected, as jobless claims fell a massive 37K, to 335K. These levels haven't been seen since January 2008 when the US unemployment rate was in the 5-6% range.

Investors' spirits were further lifted as the latest housing report showed better than expected results for 'housing starts' in December.

The 12.1% 'housing starts' increase surprised many - with an increase of this nature not seen since August 2008.

In other news, the latest US consumer confidence measure returned disappointing results. It seems the increase in payroll tax last month, and the lack of a permanent fiscal solution, continues to weigh on US consumers' minds.

Europe

In Europe, unemployment rates remained a significant issue, with figures showing a 1% increase over the last year in the Eurozone area.

However, it wasn't all bad news, with Austria (4.3%), Germany and Luxembourg (both 5.3%) all recording low unemployment.

Economic sentiment in Europe continued its upward trend last month, with the

Economic Sentiment Indicator (ESI) increasing by 1.4 points in both the European Union (EU) (to 90.6) and the Eurozone area (to 89.2). This is the third consecutive month the ESI has improved, however it remains well below its long-term average.

The main drivers of the increase were improved consumer confidence in the services and construction sectors.

China

In China last month, economic results were broadly in line with expectations, and a further indication the economic slowdown may have hit its lowest point of the business cycle.

The Chinese economy expanded by 7.9% over the year to the December quarter, proving to be slightly stronger than National Australian Bank (NAB) forecasts which predicted a 7.6% growth year on year.

This is the first time growth has accelerated in two years, and reflects the stronger than expected foreign trade results.

NAB also expects the People's Bank of China to increase interest rates later in the year if inflationary pressures start to return.

Australia

In domestic news, business confidence improved considerably in December, up 12 points, to finish at +3 index points for the month. This increase was particularly welcome after November produced the weakest figures since April 2009.

Companies appear to have taken relief from the last minute agreement to delay the US 'fiscal cliff', while signs of strengthening in the Chinese economy have also helped improve confidence. And, the Reserve Bank of Australia's

(RBA) rate cut in December is likely to have further boosted confidence.

However, while confidence has improved, business conditions remain poor as highlighted by low forward indicators of demand such as capital utilisation, capital expenditure intentions and credit demand.

In local employment news, the ANZ Job Ads survey for December showed a continuation of the nine month negative recruitment trend, falling by 3.8% in December.

As would be expected, classified advertising (-31.4%) has been declining at a faster annual rate than internet job advertising (-15.3%), however both are in decline as companies cut back on new staff hires.

Looking at the year ahead, NAB expects the unemployment rate to rise to 5.75% by year end.

Interest rates also remained a key topic of discussion in January. Increasing unemployment rates and poor business conditions are likely to put pressure on the RBA to ease interest rates further in the months ahead.

On a positive note, motor vehicle sales rose a seasonally adjusted 2.2% in December, to be up a strong 17.9% over the last 12 months. The motor industry is one sector where the Australian dollar continues to increase affordability.

Equity markets

All major markets posted positive returns during January, with Japan being the standout for the third month in a row, posting a solid return of 7.15%.

Of the majors however, the underperformers for January were the Euro 100 and the German DAX, posting 2.72% and 2.15% respectively.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	19.57%	6.71%	1.49%	4.72%
	S&P/ASX 50 Acc.	22.26%	7.55%	2.69%	5.49%
	S&P/ASX Small Ordinaries Acc.	3.07%	2.14%	-3.22%	1.90%

The Australian market was a solid performer last month, with the S&P/ASX All Ordinaries gaining a very respectable 5.07%.

Over the year to 31 January, the S&P/ASX All Ordinaries Price Index return was very good, providing investors with a capital gain of 13.30% before dividends.

For the 12 months to 31 January, the S&P/ASX 300 Accumulation Index posted a very pleasing return of 19.57%, while the S&P/ASX 50 Accumulation Index performed even better, returning 22.26%.

At the sector level, all sectors posted positive returns for January, with Information Technology outperforming the rest with a return of 14.7%. Consumer discretionary came in second with 8.6%.

The poorest performing sector during January was Materials, which only managed a return of 1.5%.

Over the 12 months to 31 January, Health Care and Telcos proved the best sectors to be invested in, with Health Care returning a stellar 53.7%.

The two sectors to be in negative territory over the 12 month period were Materials and Energy, which lost 5.5% and 2.8% respectively for the year.

Big movers this month

Going up

↑ Info Tech +14.7%

↑ Consumer
Discretionary +8.6%

Sector	1 Mth	3 Mths	1 Yr
Energy	6.0%	4.6%	-2.8%
Materials	1.5%	5.5%	-5.5%
Industrial	5.7%	10.7%	10.4%
Consumer Discretionary	8.6%	15.1%	27.0%
Consumer Staples	4.1%	6.8%	30.9%
Health Care	3.1%	12.3%	53.7%
Financials (ex Property)	7.0%	11.2%	34.1%
Info Tech	14.7%	16.1%	46.3%
Telcos	5.2%	10.9%	49.0%
Utilities	2.6%	8.7%	22.2%
Property	4.4%	6.0%	31.5%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. (\$A)	15.85%	9.37%	1.49%	2.80%
	MSCI World Index Hedged (\$A)	17.18%	10.15%	0.77%	2.00%
	MSCI World Small Cap (\$A)	17.10%	12.94%	5.13%	3.48%
Emerging	MSCI Emerging Mkts Free	9.68%	1.61%	-1.09%	3.25%
	MSCI AC Far East Free (ex Japan)	14.74%	4.54%	0.85%	4.10%

The MSCI World Index was up by 5.29% in January, which was a great result for investors.

Interestingly, the US is now the worst performer for the last 12 months, gaining 9.72%. However, the Euro 100 and the UK are just ahead, with returns of 10.34% and 10.48% respectively for the year to 31 January.

While mainland European markets performed poorly in comparison to other markets in January, they still provided reasonable returns with the German DAX posting a return of 2.15%, with the Euro 100 posting 2.72%.

The standout performer again last month was Japan's Nikkei, which had another spectacular month, returning 7.15%.

The last three months' returns have boosted the Japanese market from an underperformer to an outperformer, returning 26.54% for the year to 31 January.

Australian dollar (AUD)

In January, the Australian Dollar (AUD) continued its surge against the Yen, gaining 6.13% over the month to close at 95.65 Yen.

However, the increase in the AUD versus the Yen is due more to Japanese policy and Yen weakness, than strength in the AUD.

The AUD gained some ground against the US dollar, rising 0.28% during January to close at US\$1.0423.

Against the Euro, the AUD lost 2.55% during January to close at 0.7677 Euro. This means that the AUD has lost 5.41% against the Euro over the last 12 months.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	31.54%	11.79%	-4.98%	-2.84%
Global	UBS Global Investors Index	21.97%	11.34%	-0.54%	-0.83%

The Australian listed property market performed well in January gaining 4.27%.

Last month the S&P/ASX 300 A-REIT Accumulation Index outperformed the UBS Global Investors Index, however both indices produced good returns.

Australian listed property continued to outperform global property over the shorter term, however global property has still outperformed over the longer term.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	7.31%	7.78%	7.95%	6.71%
	Australian 90 Day Bank Bill	3.64%	4.39%	4.66%	5.16%
Global	BarCap Global Aggregate Index	3.59%	-0.73%	1.46%	0.23%
	BarCap Global Ag., Index Hedged	7.88%	9.21%	8.88%	8.23%

Australian bonds posted a loss during January, with the UBS Composite Bond All Maturities Index losing 0.23%.

Hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, also posted a loss in January, losing 0.31%, while the unhedged equivalent took a hit losing 1.37%.

On a 12 month comparison, hedged global bonds continued to outperform Australian bonds, returning 7.88% against 7.31%.