GIBSON KILLER PTY LTD MONTHLY MARKET UPDATE

July 2013

ECONOMIC NEWS

In June 2013 we received quite a lot of economic updates around the world, however the two items of significance to investment markets were the statements released by the US Federal Reserve (FED) and the European Central Bank (ECB).

The ECB left benchmark interest rates at a low 0.5% stating that a slow recovery was expected over the course of the year. ECB President Mario Draghi confirmed that an exit strategy for the massive stimulus program "remains distant". So the stimulus in Europe continues!

However in the US, Chairman Ben Bernanke sent investment markets into a spin when he finally put a time line on the withdrawal of the current stimulus measure. Previously he had indicated that they could increase or reduce the monthly level of bond purchases, however this time around it was all about commencing the reduction later this year and completing it by mid 2014. This is of course, subject to the US economic position continuing to improve.

Whilst any reasonable person would see this as a sensible statement to make, investment market participants who had a strange belief that the stimulus was never ending went into panic mode for a few days. This caused a period of increased volatility as these investors were forced to rethink and alter their investment strategies. This impacted currency markets, bond markets and sharemarkets.

Turning now to the economic data :

- The RBA minutes for June continued to paint an expectation of a slowing economy.
- The March quarter GDP figures came in at 0.6%, giving us a growth rate of 2.5% pa.
- Our unemployment rate is still at 5.5% but with the mining construction boom largely over – this is expected to rise towards 6% by the end of 2013.
- Retail sales were positive 0.2% in April. This was welcome news after earlier falls, but it is still a weak number.
- Consumer confidence numbers bounced 4.7% in June after falling 7% in May. Business confidence continued to be weak.

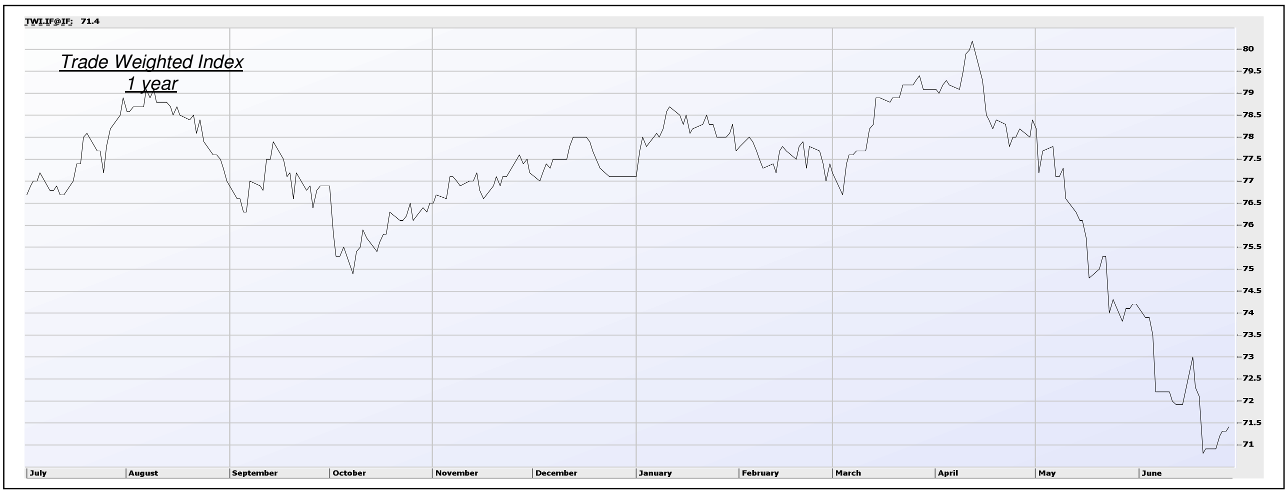
Overseas the data was also mixed with no real surprises either way. Generally the US continues to improve, Europe remains on life support and Asia's growth rate is slowing. The volatility in Japanese and Chinese data is impacting on our markets on a more frequent basis as they adjust their economic settings.

CURRENCY GRAPHS

To get some understanding of the change in some of the markets here in Australia you need to understand that we rely on capital (money) coming into the country to buy and develop our assets. As I mentioned last month, the fall in the Aussie dollar is very good news for us, it's actually bad news for the overseas investors who had already bought Australian assets. It is good news for those looking to invest in Australia, as we just became cheaper to buy.

Therefore, short term we will see foreign selling of our assets. This has been happening in the share and bond markets forcing prices lower. However this is good news for both our companies and government, leading to a better outlook if the dollar stays at lower levels. Once we stabilise though, we should look attractive to overseas investors once again.

You can see the swift fall in our currency against the US dollar and also the Trade Weighted Index which represents our foreign trading partners.



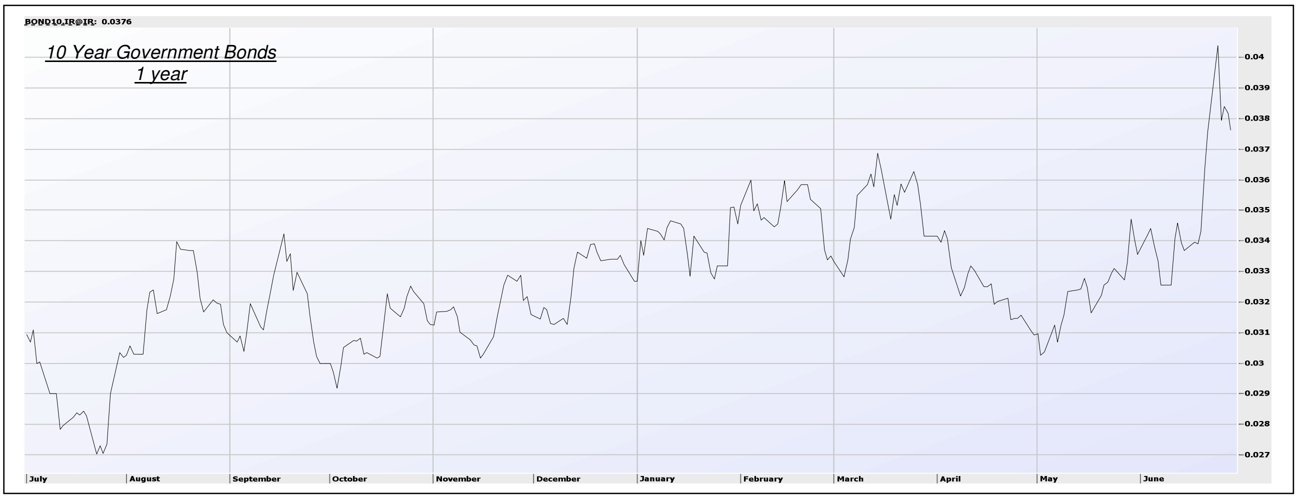
INTEREST RATES

The only official interest rate movement for the quarter was in May when the RBA dropped rates to 2.75%. Since then the bank bill markets have been flat with both the 90 and 180 day rates hanging around 2.8%.

The longer dated bond market rates have been rising in June, in some cases to the highest level in over a year. I am not convinced that this a reflection of the view that interest rates will rise. I am more inclined to believe that foreign investors desperate to exit our falling currency were happy to sell out. These rates will remain volatile, particularly if the Australian dollar remains volatile. If the Australian dollar flattens out, I would be looking for the 10 year bond rates to ease back down a touch.

The end of month rates were :

	30/04	31/05	30/06
90 day Bank Bills	2.90%	2.78%	2.79%
180 day Bank Bills	2.86%	2.76%	2.78%
3 year Government Bonds	2.58%	2.60%	2.76%
5 year Government Bonds	2.73%	2.80%	3.04%
10 year Government Bonds	3.09%	3.35%	3.76%



At present the market is split on whether the Reserve Bank will cut official rates from 2.75% to 2.50%. On the one hand the economy is still slowing, suggesting that further stimulus is needed. On the other hand, a drop in the Australian dollar of some 12% in the last quarter will provide more stimulus to the local economy than a 0.25% cut.

It's a hard call, but with expectations of weaker economic data in late July, many are of the opinion that, if the RBA acts, it will be in August.

LISTED PROPERTY

The Listed Property Trusts had a volatile month in June as we have seen the prices reach and often exceed the valuation of the underlying asset prices. This combined with a softer retail and office rental market in some capital cities has had investors reviewing their portfolio's.

The S&P/ASX200 A-REIT Capital index fell 2.4% for the month, but produced a positive 1.6% capital return for the quarter. When dividend income is included the quarterly return was 3.34%. That is the 7th consecutive positive quarter from the Listed Property Trust sector!

The better performers in June were the two Commonwealth/Colonial property funds – Commonwealth Property Office Fund and CFS Retail Property Trust. The fund's manager (Commonwealth Bank) is reviewing its property management division and may lead to an internalisation of the management team and new structure. This may also flush out any potential corporate activity.

On the downside we saw a selling off in the Investa Office Fund (-5.8%) and BWP Trust (-7.2%). There was no asset sales etc to suggest this weakness, but in both cases the income distribution guidance by the funds did not reach the levels that some in the market were looking for.

As I have said previously I am not a seller of this sector, however I am loathe to expect much capital gain in prices in the near future. The low interest rate environment will certainly assist in income distributions being lifted for those highly leased properties. I also expect that this will flow into higher market valuations of the physical real estate in coming years.

Short term I think the property funds will continue to refinance debt to lower margins and realise sales on properties they don't see as a core asset going forward. Eventually I can see many funds looking to expand the portfolios by moving from the currently conservative debt levels to a more moderate level.

The lower Australian dollar may also assist in attracting the overseas buyers back into our property market.

SHAREMARKETS

The sharemarkets have had an interesting June quarter as both local and foreign economic changes and "proposals" have been major influencing factors.

In April we saw the S&P/ASX200 rise a strong 4.50%, before losing 5.1% in May and then losing a further 2.5% in June. The quarterly result being a 3.3% fall in the Capital Index and -2.48% when you add in dividends.

Domestically the Reserve Bank decision to cut rates in May and the timely fall in the Australian Dollar has led to an exodus of foreign capital from our bond markets and sharemarket. This will slow down and cease once the Australian dollar finds its level. I would anticipate that our sharemarket can then get back these May/June losses. This coming quarter will be dominated by Company reporting season in August. My expectations for profit growth and dividend growth are not high as the business community continues to mark time until we get some confidence in our political and economic future. Unfortunately with the latest Prime Ministerial knifing, weakening economic numbers and an unemployment rate set to exceed 6% - we all continue to look, but not act!

Despite this we had a good year on the Australian Sharemarket with the S&P/ASX200 Accumulation Index rising a very solid 23%.

I do remain a comfortable investor in the blue chip sector of our market where the Balance Sheets are strong and cash generation and dividend stability remain attractive. When we do finally get some investor, consumer and business confidence I expect these companies will react first in a positive manner.

As per previous months, I continue to suggest clients accumulate these quality investments directly or via managed or Superannuation funds at any time we see price weakness.

OVERSEAS

Due to the ongoing reaction to the US Federal Reserve update on policy direction (mainly) and a few other issues we saw all the major international share markets fall in June. The MSCI World Index fell 2.6% in US dollars, however due to the fall in the Australian dollar the index went up about 2.5% for Australian investors.

The volatility we have seen will settle down as the "traders" settle into their new strategies, however I do expect to see more volatility in the months ahead – particularly when the US Federal Reserve do actually start withdrawing its stimulus.

Asian markets will remain volatile due to the ongoing Japanese stimulus and the Chinese moves to continue the slowdown in its economy. Markets will react both negatively and positively to any further announcements. Have a look at the Japanese results below.

The currency wars in coming months may also provide volatility as I would think the USA will not be happy to see the level it has appreciated (makes them less competitive) against major trading countries like China and Japan – so expect a reaction.

For the past quarter and year, the performances were :

	June Qtr	2012/13 year
MSCI World Index	- 0.07%	+16.0%
Dow Jones (USA)	+ 2.27%	+15.8%
S&P500 (USA)	+ 2.36%	+17.9%
FTSE100 (UK)	- 3.06%	+11.6%
DAX (Germany)	+ 2.10%	+24.0%
CAC (France)	+ 0.20%	+17.0%
Nikkei (Japan)	+10.32%	+51.9%
Hang Seng (Hong Kong)	- 6.71%	+ 7.0%
Shanghai Composite (China)	-11.51%	-11.0%

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