Quarterly Market Commentary as at 31 March 2011*

Market Indices	Returns as at 31 March 2011						
	1 mth (%)	3 mth (%)	6 mth (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares							
S&P/ASX 200 Accumulation Index	3.23	7.75	16.41	3.44	1.09	3.18	8.85
International Shares							
MSCI World ex Aust Net Index (AUD)	3.89	6.88	5.73	0.64	-4.53	-5.48	-3.58
Australian Fixed Interest							
UBSA All Maturities Composite Bond Index 0+ Yr	2.04	1.84	3.14	6.86	7.37	6.01	5.80
International Fixed Interest							
Citigroup World Govt Bond 100% Hdg (AUD)	0.39	-0.71	2.57	6.19	7.28	7.43	7.41
Property							
S&P/ASX 200 A-REIT Accumulation Index	3.80	2.44	6.38	4.96	-14.50	-9.13	2.90
Cash							
UBS Australian Bank Bill Index	1.22	2.48	3.71	4.87	5.03	5.65	5.44
Currency							
Australian Dollar ($A/$US)	0.89	6.81	22.44	12.67	4.25	7.72	7.79

Australian Shares
The Australian share market rose in value in the first quarter of 2011. The S&P/ASX 200 Accumulation Index climbed 3.2% during the period.

The quarter was characterised by a stream of natural disasters which, in different ways, influenced investor sentiment towards Australian and international share markets. There were cyclones and severe floods in Australia and earthquakes in Japan and New Zealand. These events resulted in some short-term volatility in share prices but, in general, investors looked through the immediate impacts and focused on the long-term earnings outlooks for Australian companies. While the events were catastrophic from a human and property perspective, they are not expected to have any meaningful influence on earnings over the longer term.

As ever, the performance of different sectors of the Australian share market was diverse. Energy stocks were supported by the rising oil price, while defensive areas of the market – such as Utilities and Health Care – were notable laggards.

International Shares
Global markets rose over the quarter as investors remained positive about the outlook for the global economy. This was in spite of significant political upheaval in North Africa and the Middle East and a severe earthquake and tsunami in Japan. The oil price was particularly strong over the period. The MSCI World ex-Australia rose by 3.9% in Australian dollar terms.

At a sector level, Energy was a significant outperformer as it rose with the oil price, while Industrials gained as investors remained positive about the global outlook. Consumer Staples and Utilities lagged as companies with more predictable earnings tended to be out of favour in rising markets.

Australian Fixed Interest
Catastrophic natural disasters, together with geo-political and sovereign events, overshadowed Australian economic data releases and news flow during the March quarter.

The 10-year Australian Government bond yield began the year at 5.55% before rallying by 20 basis points to 5.35% on 17 March following the Tōhoku earthquake and nuclear reactor crisis in Japan. However, progress in containing the reactors at the Fukushima power plant, together with allied airstrikes in Libya, soothed market fears with the CGS 10-year bond yield finishing the quarter down by 6 basis points at 5.49%.

The Australian iTraxx widened by 2 basis points to 106 basis points over the March quarter. The Australian credit market was volatile following offshore credit market leads. Concerns about China monetary policy tightening was a factor earlier in the quarter, reflecting Australia's leverage to China and emerging market economies.

International Fixed Interest
Most global bond markets experienced heightened volatility in the first quarter of 2011. Overall, improving global economic data releases, strong US corporate earnings results, oil induced-commodity price rises and inflationary pressures propelled yields higher as investors switched from safe haven to riskier assets.

The quarter was punctuated by bouts of severe investor risk aversion due to a series of turbulent geopolitical (Middle East and North Africa (MENA)), exogenous (Japan) and sovereign (Eurozone peripheral) events.

Global credit markets were volatile with US and European credit markets finishing tighter at quarter-end. The US credit market performed well in February on the back of continued improving economic data releases and a strong December quarter corporate earnings season which saw 70% of companies beat market expectations. However, overseas events in Japan and MENA contributed to US credit indices widening in March. Overall, the US IG LUCITOSS Index tightened by 3 basis points to 126 basis points.

Despite the devastating events in Japan and escalating conflicts in the Middle East, the US high yield market posted strong returns over the quarter. The broad market and BB/B constrained indices returned 3.90% and 3.64%, respectively. The Merrill Lynch High Yield BB/B rated Index tightened by 62 basis points to 426 basis points at March-end. US new issuance volumes increased by almost 20% to USD$68.6 billion over the March quarter.

Australian Property (including Listed and Direct)
At the beginning of the quarter, the outlook for the Australian – Real Estate Investment Trusts (A-REITs) market looked promising. This was reinforced by a reasonably upbeat earnings reporting season in February, although the Japanese earthquake and rising energy prices subsequently dampened investor sentiment. The Property Securities Fund was, nevertheless, able to generate a positive return in the quarter as a whole.

The first quarter of 2011 was a volatile one for global listed property securities, largely dictated by exogenous events, particularly the Japanese earthquake and rising MENA tensions. Concerns over the oil price and sovereign debt in Europe also hindered financial markets.

The UBS Global Property Investors' Index (local currency) was up +2.4% for the first quarter of 2011, with UK the strongest performing region and Japan the weakest.

Cash
The Reserve Bank of Australia (RBA) left the cash rate steady at 4.75% throughout the March quarter. Governor Glenn Stevens was quite bullish in his assessment of the Australian economy during his statement to the House Economics Committee in February. He also noted that inflation in the latter part of 2010 was quite moderate and the RBA sees price hikes due to higher fresh food prices (due to the floods) as temporary, largely dissipating by the end of 2011. The Governor also stated that the RBA was not contemplating an immediate rate rise as its current policy stance is considered to be 'mildly restrictive'.

Currency
The Australian dollar remains a focal point for domestic and international investors. The rally against most major currencies, particularly the US dollar, has been driven by a number of domestic and offshore factors. High interest rates relative to other regions continue to attract offshore capital, particularly into Australian government bonds; 70% of local bonds on issue are now owned by offshore investors.

Demand for Australian dollars has increased as more investors consider increasing allocations to Australian dollar denominated investments. The Australian dollar is now the fifth most traded global currency, with the AUD/USD the fourth most traded pair. The liquid nature of the Australian dollar, the links of the economy to Asia, commodity price and interest rate differentials are expected to see the currency supported in the remainder of 2011. The strength of the Australian dollar has hurt some sectors of the economy, most notably tourism and manufacturing; there have been some recent calls from some politicians in favour of support for these sectors. We believe it is unlikely that the Federal Government will consider any type of specific industry assistance.

***Source:** This commentary has been prepared by Colonial First State Investments Limited ABN 98 002 348 352 AFSL 232468 and is general information only.