

**Key Indices**

Index	1-May-08	31-May-08	Change	Change	Commodities	1-May-08	31-May-08	Change
S&P ASX200	5,595.40	5,654.70	59.30	1.06%	Oil - WTI	113.70	127.35	12.01%
All Ordinaries	5,657.00	5,773.90	116.90	2.07%	NY Gold	869.95	885.90	1.83%
SFE Futures 200	5,580.00	5,721.00	141.00	2.53%	Cash Rate	7.25%	7.25%	0.00
S&P ASX Property	1,776.10	1,612.80	-163.30	-9.19%	90 Day Bank Bill	7.80%	7.79%	-0.01
Dow Jones	12,820.13	12,638.32	-181.81	-1.42%	10 Yr Bonds	6.23%	6.53%	0.30
Nasdaq	1,917.70	2,032.57	114.87	5.99%	<b>Best Movers</b>	<b>3 Months</b>	<b>Price</b>	<b>Change</b>
S&P 500	1,385.59	1,400.38	14.79	1.07%	ORG	Origin Energy	\$15.60	75.68%
FTSE 100	6,087.30	6,053.50	-33.80	-0.56%	STO	Santos Ltd	\$21.80	59.82%
Hang Seng	25,755.35	24,533.12	-1,222.23	-4.75%	SGB	St. George Bank	\$34.22	44.82%
Nikkei 225	13,849.99	14,338.54	488.55	3.53%	FMG	Fortescue Metals	\$10.65	44.11%
<b>Currencies</b>					<b>Worst Movers</b>	<b>3 Months</b>		
AUD/USD	0.9337	0.9559	0.0222	2.38%	LGL	Lihir Gold Ltd	\$2.98	-28.71%
AUD/SGD	1.2715	1.3041	0.0326	2.56%	TTS	Tatts Group Ltd	\$2.62	-22.94%
AUD/EUR	0.5991	0.6160	0.0169	2.82%	TAH	Tabcorp Holdings	\$7.54	-22.27%
					TOL	Toll Holdings Ltd	\$7.54	-19.19%

**Market Commentary**

The share market rally continued into May, despite profit takers moving in late in the month. The market remains over 12% higher than its mid March bottoming, with the S&P/ASX 200 closing the month at around 5700.

Whilst traders and profit takers were active, there continues to be underlying concerns that the market will remain generally weak for some time to come. Factors influencing the weak outlook include concerns of growing global inflation, not just in the US but also China. In Australian, the RBA is also actively targeting inflation. High energy and food prices are fuelling inflation and debate is currently centering on whether they are high due to cyclical seasonal conditions or whether there is a more permanent structural change based on supply issues. There is a school of thought that believes the RBA will need to rethink its interest rate policy and inflation target range, to factor in the potential that demand pressures means commodity prices will continue to rise.

Analysts are also concerned that corporate profits, for industrial stocks in particular, are coming under pressure and the share market's attributing of historically conservative valuations to companies takes into account the strong likelihood of corporate earnings downgrades emerging in the next quarter. ANZ, Macquarie and the CBA have all flagged the likelihood of a further interest rate rise in August, predicting that the June quarter inflation figures will show that price pressures remain strong.

The Australian economy's terms of trade is at its highest level since the 1950s and is unlikely to have peaked due to ongoing demand for raw materials from China. The Australian dollar hit a peak of US\$0.9654 late in May on the back of strong commodity prices and high interest rates. This of course is unfavourable for exporters and internationally focussed business whose product or service pricing is not rising in line with the strengthening currency.

Despite these issues, selective value is apparent in the sharemarket but it will be stock specific while the broader market remains fairly sluggish. This selectivity is highlighted by current corporate activity – the proposed merger of BHP/RIO, the Westpac bid for St George and the British Gas bid for Origin all of which are huge corporate deals. Foreign investment is strong in the mining sector and strategic stakes are being built in the banking sector. For example, La Bred Banque Populaire's has increased its stake in Bank of Queensland to 9.44% and it also has a 2% stake in Bendigo Bank. It also remains to be seen whether the WBC/SGB proposal will trigger a rival bid or further consolidation in the banking sector, the possibility however is strong.

**Price Charts – past 90 days**

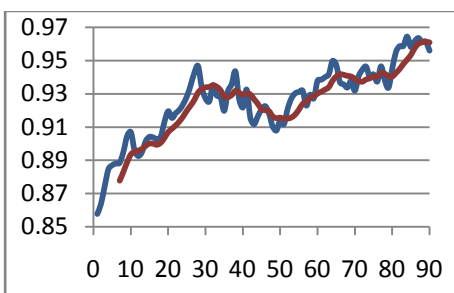


Figure 1- AUD/USD  
Red lines are 7 day moving average

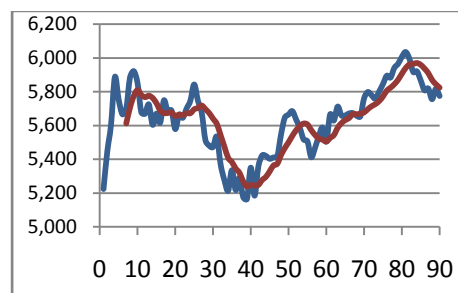


Figure 2- All Ords

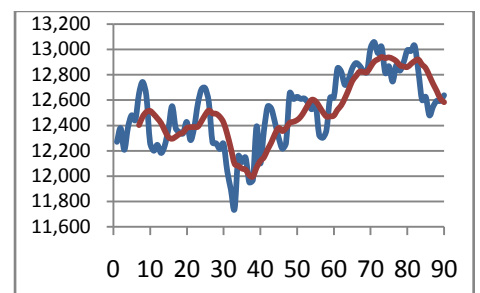


Figure 3- Dow Jones

## Long Term Share Table

Code	1-May-08	31-May-08	Change	Change	Code	1-May-08	31-May-08	Change	Change
AIO	4.01	4.35	0.34	8.48%	MTS	4.22	4.11	-0.11	-2.61%
ASX	35.89	34.38	-1.51	-4.21%	NAB	30.21	31.31	1.10	3.64%
AGK	12.50	14.41	1.91	15.28%	NWS	20.00	19.78	-0.22	-1.10%
AMP	7.83	7.34	-0.49	-6.26%	QBE	25.29	24.44	-0.85	-3.36%
ANZ	21.90	21.68	-0.22	-1.00%	RIO	136.08	138.00	1.92	1.41%
BHP	42.27	43.50	1.23	2.91%	SGP	7.23	6.31	-0.92	-12.72%
BXB	8.90	8.20	-0.70	-7.87%	SHL	15.25	14.40	-0.85	-5.57%
CBA	44.85	43.32	-2.53	-5.64%	TCL	6.86	5.69	-1.17	-17.06%
CNP	0.46	0.38	-0.08	-17.39%	TOL	7.93	7.54	-0.39	-4.92%
CSL	39.79	39.80	0.01	0.03%	TAH	11.42	11.24	-0.18	-1.58%
CPU	8.95	9.54	0.59	6.59%	TLS	4.56	4.75	0.19	4.17%
CWN	10.97	10.53	-0.44	-4.01%	WBC	24.49	23.25	-1.24	-5.06%
GPT	3.33	2.88	-0.45	-13.51%	WDC	18.24	17.06	-1.18	-6.47%
IVC	6.84	6.70	-0.14	-2.05%	WPL	55.90	65.00	9.10	16.28%
LEI	47.09	53.30	6.21	13.19%	WOW	28.70	27.72	-0.98	-3.41%
MAP	3.14	2.90	-0.24	-7.64%	WES	37.40	37.90	0.50	1.34%
MIX	0.45	0.44	-0.02	-3.33%	ZFX	10.10	9.50	-0.60	-5.94%

## Managed Funds

Fund	1-May-08	31-May-08	Change	Change %
Ausbil - Emerging Leaders Fund	2.5892	2.6712	0.0820	3.17%
BlackRock Direct Property Fund	1.1408	1.1420	0.0012	0.11%
BlackRock Wholesale Global Small Cap	0.8417	0.8551	0.0134	1.59%
CFS Wholesale - Geared Share Fund	5.3687	5.4594	0.0907	1.69%
Challenger Wholesale Micro Cap	1.0408	1.0300	-0.0108	-1.04%
Hunter Hall - Global Ethical Trust	1.3146	1.3607	0.0461	3.51%
Pengana Emerging Companies Fund	1.7704	1.8030	0.0326	1.84%
Platinum Asia Fund	2.6646	2.6230	-0.0416	-1.56%
Platinum International Brands Fund	1.8111	1.8065	-0.0046	-0.25%
Vanguard - Index International Shares Fund	0.9759	0.9789	0.0030	0.31%

## Corporate Actions of Interest

Company	Code	Issue	Date
Westpac/St George	WBC/SGB	SGB agrees in principle to a friendly merger with WBC. 1.31 WBC shares for each SGB share.	Ongoing
Zinifex/Oxiana	ZFX/OXR	ZFX shareholders will receive 3.1931 OXR shares per 1 ZFX share.	Vote June 16
QBE/Insurance Aust	QBE/IAG	Proposal by QBE for a merger by scheme of arrangement with IAG.	Ongoing
Just Group/Premier	JST/PMV	PMV offer of \$4.05 per JST share rejected by JST board.	Ongoing

## What you should know this month

### Macquarie Cash Management Trust

The Macquarie Cash Management Trust is a product that many Investstone clients will be very familiar with given its use as the transactional hub for most client's investment portfolios. Given its role and importance to investors we are going to provide a background on the Macquarie Cash Management Trust (CMT) with regard to what it invests in and the risks, security and strategy of its investments.

The Macquarie CMT is the largest retail fund in Australia at over A\$13 billion. It is rated AAAM from Standard & Poor's which indicates that the safety of the fund is excellent and has the capacity to maintain its principal value and limit the exposure to loss.

As part of maintaining its high rating it only invests in government/semi-government and bank backed securities. Its investment process is to uncover investor expectations and make an assessment of the risk level associated with those expectations to create an appropriate portfolio structure. Technical and economic analysis is performed on a near and short term basis in combination with market activity to try and anticipate any short term interest rate movement with a close eye kept on the policy direction of the RBA.

### Australian Banking Sector

With the recent merger/takeover proposal by Westpac for St George Bank there has been renewed speculation about the future of the 'four pillars policy' for the Australian banking sector. It is clear from a recent speech to the House of Representatives that there is not going to be a shift in policy any time soon. The Treasurer, Wayne Swan outlined that the proposed SGB/WBC merger approval has no bearing on the four pillars policy, the recent disruptions felt in the global financial services system, demonstrated the soundness of the four pillars policy, separate from its ability to ensure a level of competition, the Treasurer sees the four pillars policy as a way to provide a level of comfort around the "soundness" of the Banking System and that regardless of the outcome of the SGB/WBC merger, the Government sees no reason to change the four pillars policy.