WHK MARKET UPDATE for 20 AUGUST 2010

This publication is issued as a general market update to our valued clients and we have therefore not taken into account your individual investment objectives, financial situation and particular needs. Before making an investment decision on the basis of this update, we recommend you contact us to seek individual specific advice to ensure your investment objectives, financial situation and particular needs are met.

Market Summary

Australian markets ended marginally higher after minimal leads from the US on Wednesday night but Asian stocks ended higher as real estate and consumer lender stocks rose in Japan on speculation that the central bank may introduce further monetary easing measures. European shares ended with heavy losses on Thursday after early gains inspired by strong UK retail sales and an improved forecast for German growth evaporated in the wake of weak US economic data. European markets erased much of their early gains after first-time jobless filings in the US jumped to a nine-month record. Losses deepened after the Philadelphia Fed index unexpectedly dropped. In the US, Intel and General Electric both weighed heavily on the Dow Jones Industrial Average on Thursday as US stocks skidded broadly. Australian trade should be lower today following the US markets. The Federal Election tomorrow is hanging over the market with the uncertainty surrounding direction sure to have an influence on trade today. The SPI Futures are 67 points lower while Asian futures are mixed.

Long View

The Federal Election has been having an influence on market trade in the last month, so we thought it worthwhile to present some of the outcomes that may occur after the election tomorrow. We expect a cliff-hanger of an election but pre-election calls have the Greens controlling the Senate which could change the policies below and water down anything that is proposed. The main sectors likely to be affected will be resources and telecommunications. Should Labor get in, the Mineral Resources Rent tax will be implemented but scrapped under a Liberal Government. BHP and RIO are sure to be helped by a Liberal victory as will the smaller miners. In the telco space, the NBN will be implemented under Labor but scrapped under the Liberal's and replaced with their backhaul proposal. Telstra may gain under a Labor victory due to the payments it may receive and not needing to build the NBN network. Under the Liberal plan Telstra will benefit from the backhaul project and still retain the strong competitive position for the other parts of the network. Either way Telstra will need to become a more competitive sales and customer service operation. Climate change policy sees Labor have a community consensus policy while the Coalition is looking for more information. There is unlikely to be any movement in this area until there is broader country consensus about a course of action but both parties would implement tough 2020 targets. Company tax rates will be lower under a Labor Government at 29% with the Liberal Government offering a tax cut to 28.5% and a levy of 1.5% to pay for paid parental leave. Banks should benefit from a Labor victory with higher superannuation contributions. Healthcare funding will be focussed on hospital funding and may reduce funding for pathology services which would benefit Ramsay and hurt Sonic, Primary and Healthscope. The Coalition looks toward private funding options that would see the above companies benefit.

Australian Company & Economic Reports

This morning **ANZ Banking Group (ANZ)** delivered its third quarter update saying that business momentum continues and provisions were lower in the third quarter. Unaudited underlying profit for the nine months was estimated at $3.6bn compared to profit for the prior full year of $2.9bn and peak profit levels of $4.1bn. Profit for the third quarter was up 5% on the second quarter and provisions were down 34% on the average rate of the first half. ANZ quotes profit before provisions up 5% to $6.5bn. Group margins continued to grow but growth was slowing which is an excellent result in the current climate of higher funding costs. ANZ s Tier One capital ratio was 10.3% and has completed their funding for 2010. ANZ closed yesterday at $22.46.

Wesfarmers (WES) reported a 3% rise in full-year net profit but missed market expectations, as lower coal prices for the first nine months of the fiscal year weighed on otherwise strong results from its retail businesses. The group reported 15.8% earnings before interest and tax growth from Coles, 80% improvement from its Kmart division and 10.5% earnings growth from its Bunnings hardware division, but an 81.4% drop in resources EBIT stifled the results. In total, Wesfarmers reported a $1.57bn net profit for the period ended June 30, up 3% from $1.52bn a year earlier. Target is a bigger business for Wesfarmers than Kmart is presently. To compare, Target's EBIT was $381m for the year while Kmart's was $196m. Coles contributed $962m while Bunnings added $728m of EBIT. Resources made $165m of EBIT. Overall, the group reported full-year EBIT of $2.87bn. Revenue was $51.83bn, up 1.8% from $50.98bn a year ago. Wesfarmers declared a final dividend of 70 cents, up from 60 cents a year ago. The group is increasing its capital expenditures in fiscal 2011 to invest $2.2bn-$2.4bn, up from $1.66bn in fiscal 2010. The group said it will be investing in its retail business with store roll-outs and refurbishments, while spending $300m to buy land as well as expanding its Curragh mine. As for the resources sector, the group expects earnings to increase in the coming year due to higher export coal prices. WES advanced 15 cents (0.47%) to $31.95.

QBE Insurance (QBE) said it is assessing close to US$6bn worth of acquisition opportunities to drive its growth after reporting a 39% fall in first half profit. QBE put to rest any lingering speculation that it may be considering a tilt at local rivals Insurance Australia Group or Suncorp-Metway, saying it was focused on offshore opportunities. Chief Executive Frank O'Halloran said that QBE has been presented with US$6bn of opportunities since June 30, primarily in the US and Europe, with a few smaller ones in Asia. "The pricing of acquisitions in Australia is still too expensive," O'Halloran later said. With US$800m of tier-two capital, O'Halloran said QBE could afford to buy a company or companies generating US$1.2bn of gross written premium combined. QBE will consider larger opportunities as well, O'Halloran said. "We wouldn't hesitate to talk to the market if there was an opportunity because that's the way we grow our business," he said when asked of the potential for a capital raising. Net profit for the six months to June 30 fell to US$440m, from US$720m a year before, with the decline largely the result of a reduction in investment income and an absence of one-off gains recorded in the previous year's result. QBE's insurance profit rose 8% to US$822m from US$764m, resulting in an insurance margin of 15.7%, in line with preliminary numbers provided by the company last month and down from 17.5% in the previous corresponding period. QBE stuck to its forecast for a full year insurance margin of 16-18%, implying a better second half performance. Claims for the half were slightly lower on-year after higher large catastrophe claims from storms in Australia and the Gulf of Mexico oil spill were offset by an absence of claims related to the global financial crisis. Gross written premiums, a key revenue measure, rose 20% to US$6.86bn, also as disclosed in July, and it forecast full year premium revenue to rise 19% to US$13.4bn. QBE maintained its interim dividend at 62 cents per share. QBE rose 19 cents (1.12%) to $17.11.

ASX (ASX) reported a 4.6% rise in full-year net profit boosted by revenue gains across all its activities other than information services. The annual results come just a few months before the ASX is set to lose its monopoly as the sole equities trading platform, with the exchange outlining a series of initiatives it hopes will make up for the increased competition, including the introduction of its own volatility index - or VIX - along similar lines to the Chicago Board Options Exchange's Volatility Index. For the fiscal year ended June 30, net profit rose to $328.1m from $313.6m a year earlier. Operating revenue was $588.2m, up 9.2% from $538.4m a year earlier and shareholders will receive a final dividend of 84 cents, compared with 74.5 cents a year ago. On the operational side, the company aims to make up for any potentially lost business from competition through the unveiling of new products, particularly in terms of information and technology resources - a similar model to other established exchanges worldwide. Among the areas highlighted were more investor relations services to listed companies, an expansion of its global seminar program and tiered pricing on its trading information platform. ASX fell 10 cents (0.33%) to $29.90.

Goodman Group (GMG) said that losses stemming from declining property values had slowed but market conditions remain subdued. Goodman posted a $562.6m net loss for the 12 months to June 30, half the $1.12bn recorded in the previous year. It said 90% of the losses were recorded in the first half of the financial year and they slowed significantly in the second half when property valuations began to stabilise. Writedowns on its property values were $562.9m for the year, down from $1.16bn previously. It said operating profit, which excludes the writedowns, fell 24% to $310m from $408.1m, in line with company guidance. Chief Executive Greg Goodman forecast an operating profit in the current financial year of between $370m and $380m. The trust declared a final distribution of 1.9 cents per security. GMG weakened 2 cents (2.31%) to $0.64.

International Market Report

The Dow fell 144.33 (1.39%) to 10,271.21. The Nasdaq Composite fell 36.75 (1.66%) to 2,178.95, its first drop in four sessions. The Standard & Poor's 500 - share index slid 18.53 (1.69%) to 1,075.63, with all of its sectors closing in the red. Leading the measure's broad decline, financials and materials slid as the economic data darkened prospects for a robust recovery. And in an ominous sign for the broad market, the Dow Jones 20 Transportation Average, seen as an economic barometer, sank 103.18 (2.39%) to 4,216.87l.

In economic news, the number of US workers filing new claims for jobless benefits unexpectedly rose 12,000 last week to the highest level in nine months, a distressing sign for an already weak labour market. Economists were expecting claims to dip to 480,000.

The Stoxx Europe 600 index fell 1.4% to 253.90, having earlier gained as much as 0.7%. Regional indexes also dropped, with the UK's benchmark FTSE 100 index falling 1.7% to close at 5,211.29, the French CAC 40 index losing 2.1% to end at 3,572.40 and the German DAX 30 index ending the day down 1.8% at 6,075.13. European data was more upbeat - Germany's Bundesbank lifted its forecast for German growth in 2010 and said it saw little chance of a double-dip recession in the US. In its August report, the central bank said it expects 2010 GDP growth of 3% in Germany, up from its previous forecast of 1.9%. Although an upgrade wasn't a surprise in the wake of record second-quarter German GDP growth reported last week, the central bank's report helped boost sentiment. UK retail sales figures, meanwhile, were a positive surprise. Sales growth of 1.1% in July easily outstripped the 0.6% forecast by economists.

Japan's Nikkei Stock Average climbed 1.3% to 9,362.68, China's Shanghai Composite Index rose 0.8% and Hong Kong's Hang Seng Index was up 0.2%.

Base metals generally closed lower on the London Metal Exchange after a trio of disappointing US data releases weighed on market sentiment. Aluminium fell $45 (2.13%) to $2,070 while copper weakened $60 (0.81%) to $7,320 and nickel dropped $210 (0.96%) to $21,700. Zinc shed $35 (1.64%) to $2,105 and lead lost $45 (2.10%) to $2,095. Comex copper was last quoted at 332.65 US cents per pound. Gold futures hit a seven-week high after a flurry of disappointing economic data rejuvenated investors' recent flight to safety. Spot gold was last quoted at $1,231.50. Comex gold futures firmed $4.00 (0.32%) to $1,235.40. Spot silver was last quoted at $18.24. Crude oil prices settled at a six-week low, stung by a rash of disappointing US economic data and the highest inventories in nearly 27 years. West Texas Intermediate was last quoted at US$74.43 per barrel.

Please call Chris DiMattina or Damien Smith on 1300 135 543 if you would like to discuss any of the above.

Please note: WHK new address is Level 17, 181 William Street, Melbourne VIC 3000. Our main contact number has also changed to 03 9258 6700.