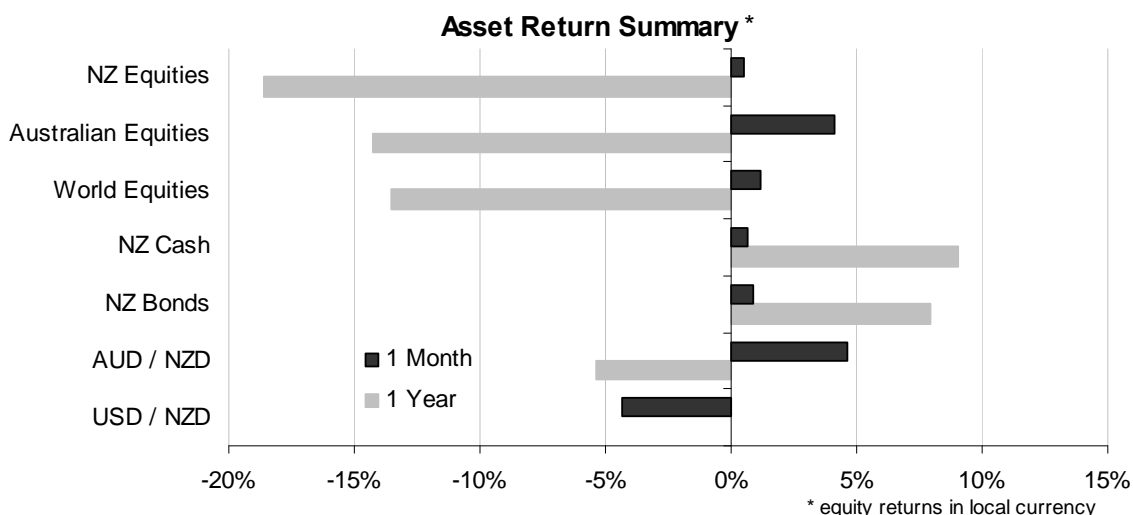


Hāhāea nga ripa o te pō, kia whiti ake ko te māramatanga
 (Shred away the darkness, let there be light)

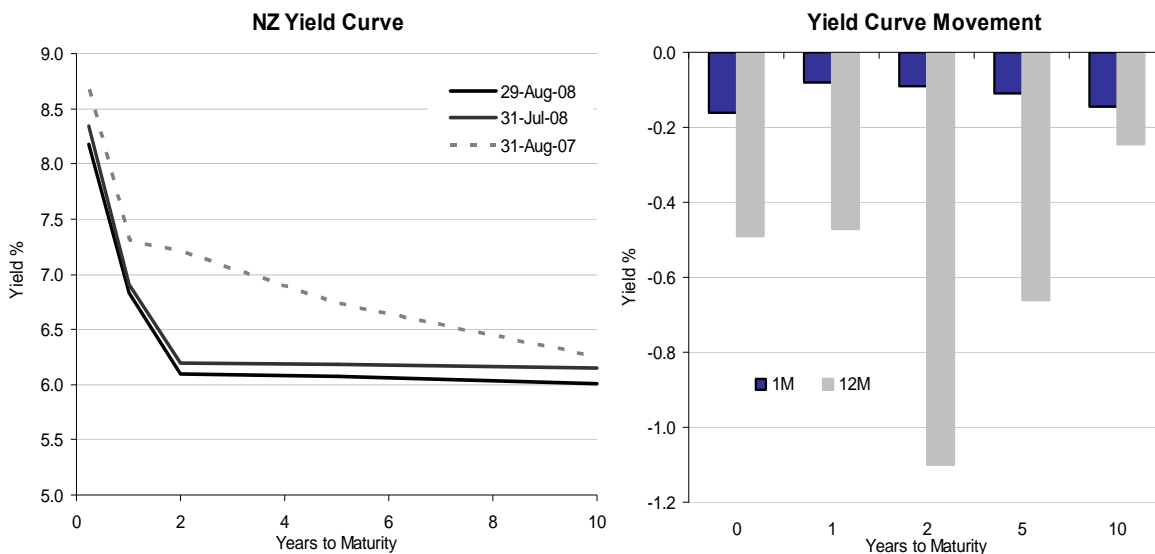
LTF Limited: Monthly Market & Sector Review – August 2008

Market Overview



- Weaker global economic growth indicators and further concerns on the US banking sector were the focus for the markets in August. Economic data showed that the slowdown is spreading across more countries, including emerging markets. As a result, commodity prices weakened significantly, oil prices fell further, and concerns about inflation reduced somewhat. More bank failures occurred in the US and the creditworthiness of two major government sponsored enterprises, Freddie Mac and Fannie Mae, remained questionable.
- Equity markets showed small gains, with the MSCI World Index up 1.2% and the NZX50 Index up by 0.5%. Locally, the earnings reporting season was a focus for the market. While some results were good under tough economic conditions, companies were cautious about the outlook.
- After a poor run of economic data this year in New Zealand, some tentative positive signs have emerged of somewhat better growth prospects in the second half following the shallow recession in the first half.
- The weaker global economic outlook and lower commodity prices supported the bond market, with widespread falls in bond yields. The NZ 10-year rate fell by 0.14% to 6.01%. With further easing in interest rates by the Reserve Bank nearing, the 90-day bank bill rate fell by 0.16% to 8.18%.
- The broadening of the economic slowdown globally resulted in a turnaround for the US dollar, which rose against the major currencies, while weaker commodity prices and strong hints of the RBA reducing interest rates at its next meeting hit the Australian dollar.

NZ Cash & Fixed Interest



Expectations of short term interest rates were little changed during the month, with most expecting a series of 0.25% reduction in the cash rate through the rest of the year. As the next expected easing neared, the 90-day bank bill rate continued to fall, down 0.16% to 8.18%.

The bond market was supported by global developments. Weaker global economic growth indicators and concerns on the US banking sector were the focus for the markets in August. Data showed the economic slowdown spreading across more countries, including emerging markets. In particular, economic growth rate slipped into negative territory in Europe and Japan in the June quarter and growth indicators for China showed some slippage. As a result, commodity prices weakened significantly, and oil prices fell further. Crude oil futures fell from above US\$125 to nearly US\$116/barrel.

More bank failures occurred in the US and the creditworthiness of two major government sponsored enterprises, Freddie Mac and Fannie Mae, remained questionable.

The weaker run of global economic data, subdued outlook and the fall in commodity prices reduced concerns about the inflation outlook. Falls in bond yields were widespread. The US 10-year rate fell by 0.16% while the fall for Australia was larger at 0.49%, as recent economic data was weaker than expected and the Reserve Bank of Australia gave strong hints that it was poised to embark on an interest rate easing cycle. The NZ 10-year rate fell by 0.14% to 6.01%.

The broadening of the global economic slowdown resulted in a turnaround for the US dollar, which rose against the major currencies, while weaker commodity prices and expectations of lower interest rates in Australia hit the Australian dollar. The NZ dollar slipped lower against the US dollar during August, falling from above 73c to 70c, largely pressured by a rebound in the US dollar. Overall the NZ dollar was flat, gaining 5% against the Australian dollar and falling 4% against the US dollar.

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NZ Equities

The NZX50 Index rose by 0.5%. Companies that are sensitive to the domestic economy or benefit from a weaker New Zealand dollar tended to outperform, some from depressed levels. Locally, the earnings reporting season was a focus for the market. While results were okay, and many were good considering the challenging economic conditions, companies were cautious about the outlook and analyst continued to downgrade their forecasts.

Two of the best performing stocks were Fletcher Building and Cavalier Corporation. Fletcher Building's result showed 17% growth in earnings to \$467m, a resilient result given weak demand in the Australasian residential building sectors. The stock may also have benefited from tentative evidence that house sales and building consents might be in a bottoming out phase. Other companies to show good results were Nuplex Industries, which also benefited from lower oil prices, and Port of Tauranga. The strong performance of Rakon, Fisher and Paykel Healthcare and Sanford reflected their positive leverage to the weaker New Zealand dollar. FPH also benefited from a strong trading update at its annual meeting.

Australian Equities

The Australian share market (S&P/ASX200 Accumulation Index) rose by 4.1% in August despite a relatively disappointing earnings reporting season for the industrial companies. Given the strong performance of the market during this period, investors clearly expected the worst and were relieved to find few negative surprises.

Offshore Equities

Notwithstanding the weaker global economic growth outlook, the MSCI World Index showed a small gain of 1.2%, supported by lower bond rates.

While the US economy is far from a picture of health, the recent US economic data has tended to surprise on the upside, unlike data elsewhere in the world.

- The UK is arguably facing the worst growth outlook. The Finance Minister has suggested the current environment was the most challenging in 60 years. The June quarter economic growth rate was revised down from 0.2% to flat and on the brink of recession. The Bank of England's inflation concerns will likely be overshadowed in coming months.
- Europe has already posted negative economic growth, as exports are constrained by a strong Euro and falling US demand while high oil prices have increased input costs. The economy contracted 0.2% in the June quarter. Consumer confidence and spending continues to slow rapidly, manufacturing and services activity surveys reveal further weakness. Nonetheless, the European Central Bank policy makers appear very concerned about inflation, and so interest rate cuts are unlikely until at least 2009.
- The Japanese economy contracted by 0.6% in the June quarter, prompting fears that it is sliding towards recession. Declining exports and retail sales were behind the fall. With consumer confidence at record lows and domestic spending, which accounts for half of economic activity measure, fell by 0.5%, some economists believe the economy will contract in the next three months, partly due to the slowdown in the US.

Monthly Market Insight

The New Zealand economy is stabilising but recovery is likely to be slow

Ever since the Reserve Bank's July review of the official cash rate, most domestic economic data releases have come out broadly as expected, and show signs of a weakening economy starting to stabilise.

International oil prices have also fallen significantly (from a high of US\$145 a barrel to around US\$110) leading to a fall in petrol prices. The lower prices had an immediate impact on improving consumer and business sentiment, although both are still at very low levels. Also helping business confidence has been the fall in the exchange rate, with the trade weighted index (a measure of the New Zealand exchange rate) falling around 14%.

Mortgage rates are also down from their May peak, which should assist in slowing the decline in the housing market. House sales have stabilised in recent months, although prices are still easing. Employment growth has stalled but the labour market remains in a healthier position than in previous economic slow down.

The outlook for exports has also improved with the lower exchange rate. Commodity prices remain strong, with rising meat prices working to join high dairy prices. The lower exchange rate, particularly against the Australian dollar, will also help drive a recovery in manufactured exports. However, the outlook for trading partner growth has weakened. Australian and Asian growth had remained relatively resilient, in spite of slowing demand in US and Europe. More recently there has been some concern that both the Chinese and the Australian economic growth may slow further.

The combined effect of lower petrol prices and interest rates has helped the New Zealand economy show tentative signs of stabilisation. It will be reassuring to the Reserve Bank that the economy is no longer weakening, and suggests a rescue package of a 0.5% cut in the cash rate will not be needed. Nonetheless, growth is expected to remain very weak for some time yet. While the Reserve Bank is looking for slower growth (reduced demand) to unwind inflation (pricing) pressures, they do not want growth to be any slower than necessary and will continue to reduce the cash rate.

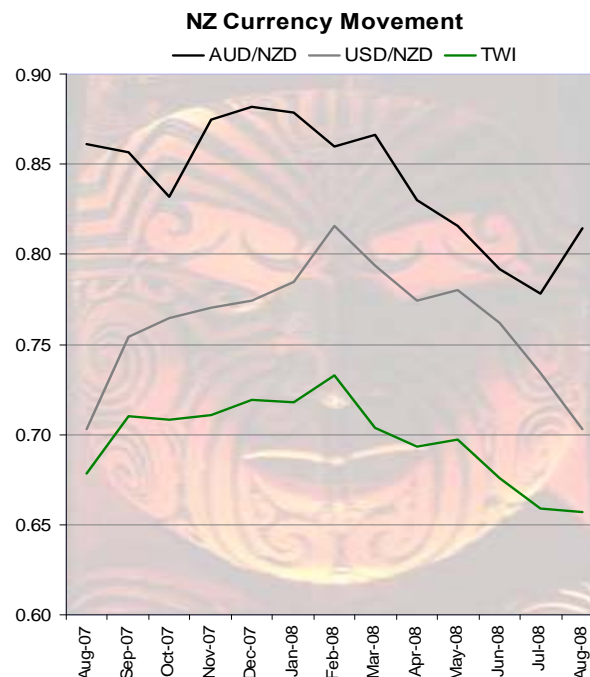
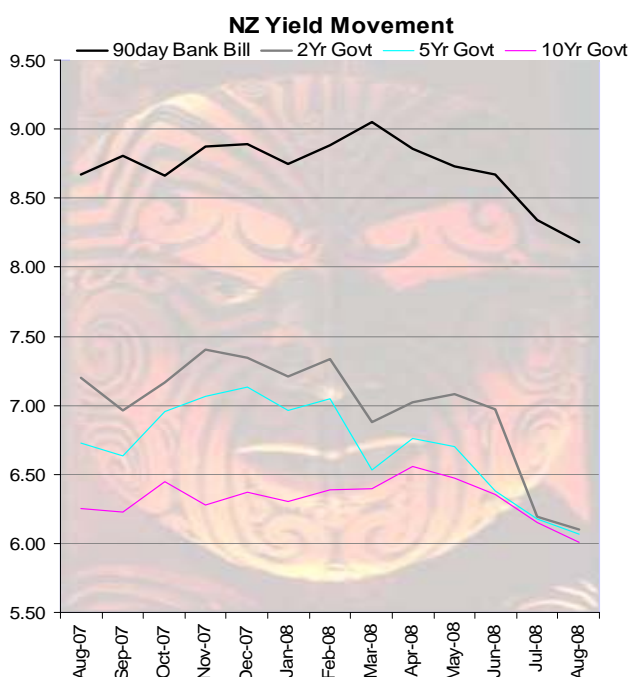
On the inflation front, the Reserve Bank has got the improvement they were looking for. Although annual inflation is still likely to peak in the September quarter, the recent fall in petrol prices has provided considerable relief. Key inflation pressures are now set to moderate over the next year. Annual food price inflation is set to slow, in spite of recent weather-related food price spikes. In addition, the weak economy will limit the ability of manufacturers or retailers to increase prices. Finally, wage inflation, a reasonable indicator of domestic inflation pressures, whilst remaining high, is not accelerating and is likely to moderate.

These developments should make the Reserve Bank more comfortable on the medium term inflation outlook. However inflation now remains uncomfortably high and it is still too early for the Reserve Bank to become complacent on the inflation front. In addition, the depreciation of the exchange rate, while necessary to enable a rebalancing of the economy, will continue to put upward pressure on inflation.

While the pressure on the New Zealand economy has eased, the difficult global environment, and in particular the banking and housing sectors, is likely to limit the recovery.

Market Data Summary

Equities (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	3,353	0.5%	-7.5%	-6.4%	-18.6%	0.0%	8.6%	9.5%
ASX200 (Local)	33,652	4.1%	-8.1%	-5.7%	-14.2%	9.4%	14.7%	12.1%
ASX200 (NZD)		-0.5%	-7.9%	-0.4%	-9.4%	14.0%	16.8%	12.9%
MSCI World (Local)	2,237	1.2%	-8.9%	-3.8%	-13.5%	4.2%	8.1%	4.2%
MSCI World (NZD)		3.0%	-1.7%	8.7%	-12.1%	5.2%	5.7%	1.7%
NZX50 / ASX200(NZD) comp		0.0%	-7.7%	-3.4%	-14.0%	7.0%	12.7%	11.2%
Bonds (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	530.70	0.7%	2.2%	4.4%	9.0%	8.2%	7.5%	6.6%
NZX Govt Bond Index	983.53	0.9%	3.4%	5.5%	7.8%	5.5%	5.9%	6.5%
NZX Composite A Grade	2,681	0.9%	3.7%	6.0%	8.0%	5.6%	5.9%	6.5%
Property (gross return)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	1,993	-3.7%	-11.9%	-10.0%	-18.0%	3.0%	8.8%	9.9%
ASX200 Property (Local)	28,474	10.3%	-6.6%	-11.1%	-35.3%	-1.6%	6.9%	8.8%
ASX200 Property (NZD)		5.4%	-6.4%	-6.1%	-31.7%	2.5%	8.9%	9.5%
Currencies (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.8145	4.7%	-0.2%	-5.3%	-5.4%	-4.0%	-1.8%	-0.7%
USD / NZD	0.7028	-4.3%	-9.9%	-13.8%	0.0%	0.8%	4.2%	3.5%
NZ TWI	65.7	-0.3%	-5.7%	-10.3%	-3.1%	-1.9%	1.2%	1.5%
Interest Rates (basis points)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	8.18	-16	-55	-70	-49	114	306	185
10 Year NZ Govt Bond	6.01	-14	-46	-38	-24	37	6	-30
10 Year US Govt Bond	3.83	-16	-23	30	-71	-19	-62	-122
Commodities (% change)	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	116.09	-6%	-9%	14%	57%	19%	30%	24%
CRB Index	391.7	-6%	-7%	-5%	27%	6%	10%	7%



Sources: ANZ National Bank, First NZ Capital, LTF Limited.

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