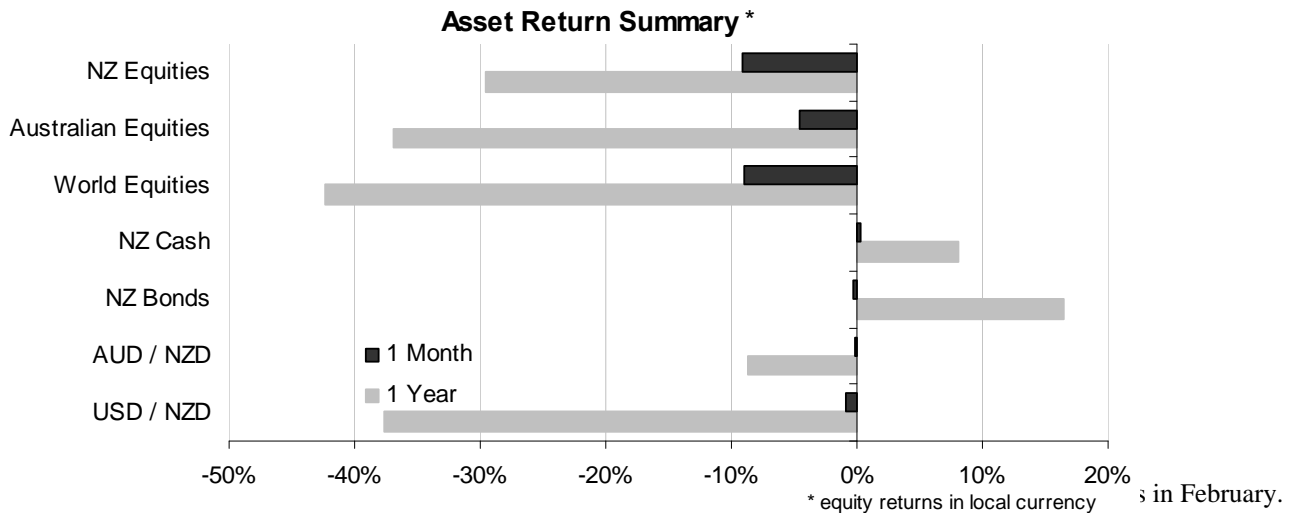


Hāhāea nga ripa o te pō, kia whiti ake ko te māramatanga  
(Shred away the darkness, let there be light)

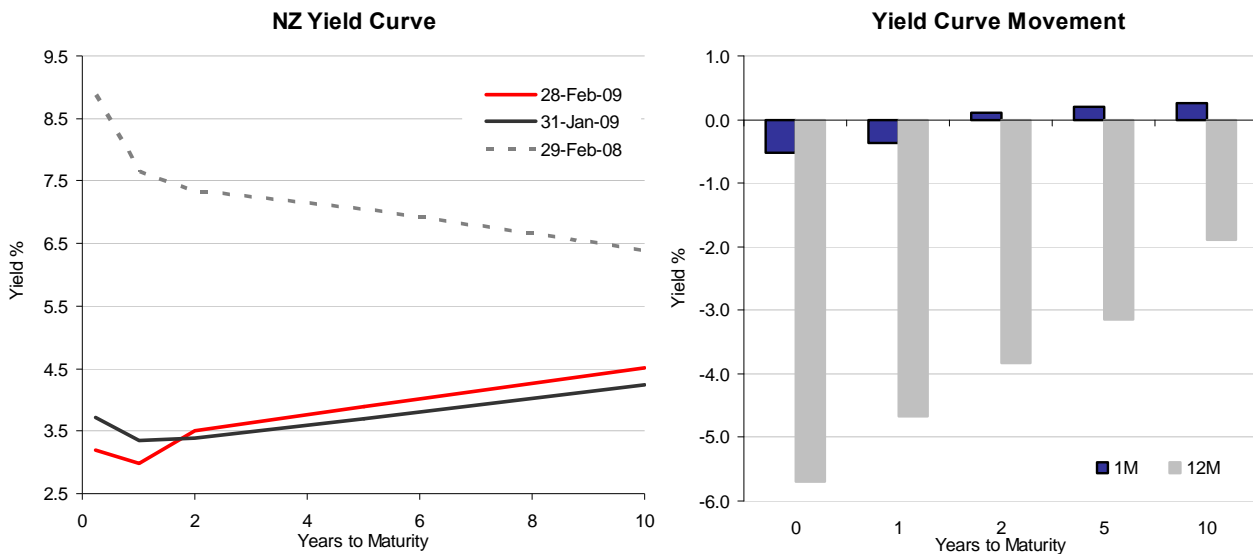
TMF Limited: Monthly Market & Sector Review – February 2009

Market Overview



- Concern about the financial sector and worries about global recession dominated financial markets in February.
- Investors started the month hopeful that US President Obama's fiscal stimulus package, combined with revamped bank bailout plans in the US and UK, would help stabilise financial markets. However, In contrast to the early investor optimism, the economic data out of the US continued to be weaker than expectations over February.
- In particular the slide in US employment certainly surprised markets. US non-farm payrolls fell by 598,000 - the biggest decline in 34 years. The continued weakness in the US housing sector did not show any indications of bottoming and the sharp contraction in US economic growth (6.2% annualised) confirmed the US recession is likely to be a lot more prolonged than initially expected and ensured that US share indices closed the month on a negative note.
- Economic data in Japan and the UK also saw massive falls in growth on 4<sup>th</sup> quarter GDP data.
- New Zealand interest rates were mixed over February, with short term interest rates falling and longer term interest rates rising slightly. The NZD closed the month lower against both the AUD and USD.
- New Zealand equities ended February 9.1% lower, more than reversing the 2.2% gain in January.

## NZ Cash & Fixed Interest



The 90-day bank bill yield declined in February, reflecting the expectation of further cuts from the Reserve Bank in March. Financial markets are predicting more easing of the Official Cash Rate in coming months, although the size of any future cuts will likely be smaller than the 1.50% drop in January. The 90-day bank bill rate at the end of February stood at 3.19%, well below the current level of the 3.50% Official Cash Rate.

Longer term bond yields rose slightly during February, retracing part of the large falls over the previous months. However NZ Government yields are still well below long-term averages, despite lifting off their 2009 lows. NZ 10-year Government Bonds are yielding around 4.5%, compared with the average of 6.6% over the past 15 years. US 10-year Government Bonds are yielding around 3%, compared with the average yield of 5.2% over the past 15 years.

The NZ fixed interest market has had a string of new corporate issuance as companies refinance their debt facilities. Many of the new issues have been geared towards the retail market where demand is strong to pick up higher yielding investments.

## NZ Equities

February was dominated by reporting season news flows which illustrated the impact of the severe macro environment. Those companies with offshore revenue streams highlighted the weak global economy.

The New Zealand sharemarket lost 9.1% in February with large falls in Fisher & Paykel Appliances (FPA) and Nuplex Industries (NPX) which both significantly underperformed over the month.

FPA lowered profit guidance and signalled a potential equity raising. In a similar vein, NPX posted a poor result with first half profit 76% lower than the previous corresponding period.

**Australian Equities**

February proved to be another difficult month for equities with the ASX200 finishing the month down 4.6% in local currency, but managed to outperform most international markets. Risk aversion remained key in the face of further deterioration in offshore economic data and company earnings downgrades. Investors were preoccupied with the significant amount of data provided with the “reporting season”, with analysts continuing to revise down their earnings expectations across a range of companies.

The Banks, Consumer Staple and Energy sectors outperformed while Real Estate Trusts, Industrials and Utility sectors lagged.

**Offshore Equities**

February was negative for equity markets as further negative news on growth and employment caused investors to re-evaluate the economic landscape.

The US continues to de-leverage. So far, insufficient capital has been injected into the banking system, and house prices continue to fall because of oversupply. Fiscal stimulus should help, but the full impact will be somewhat delayed.

Europe is in a severe recession and may soon experience a banking crisis because of defaults in Eastern Europe. Eastern Europe has borrowed an estimated \$1.7tn, from Western European banks.

Japan is in a severe recession. The external sector is collapsing under the weight of falling global demand, and this is likely to have negative flow-on effects for the broader economy.

**Monthly Market Insight****NZ Commodity Prices – Report from ASB Bank**

The CBA NZ Commodity Price Index again declined in USD terms over the week. Lamb prices continue to show strength in the face of the tough global economic climate. Dairy powder prices held last week, while butter, casein and cheddar all fell. However, this week’s Fonterra globalDairyTrade auction provided some good news for the sector. The average whole milk powder price jumped by 16.6% since last month. However, given the global uncertainty, it is too early to call this a bottom. The next few months are likely to provide some price volatility.

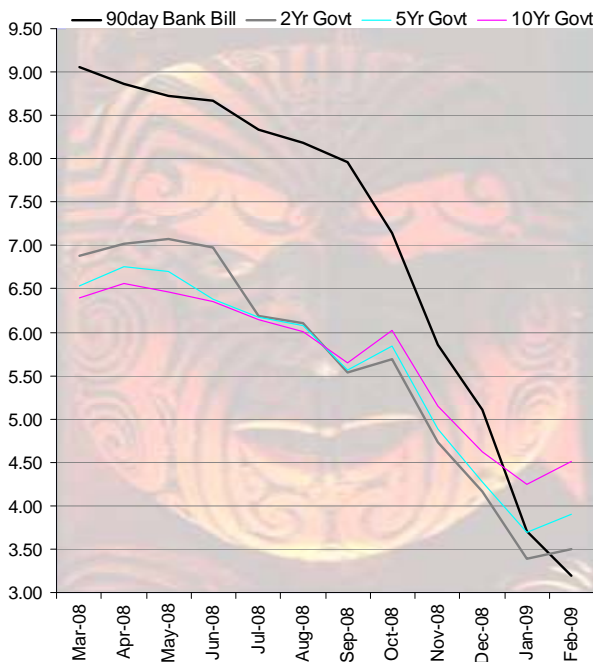
Lamb prices moved marginally higher again last week, with all indications that the UK market is holding steady. Anecdotes suggests there is some concern over other markets, where demand has dropped off. Lower demand from some areas has been offset by the lower lamb kill, which is currently about 10% behind last year.

Beef markets are starting to feel the pinch, with local schedule prices tracking down despite the weaker NZD. US imported prices continue their downward trend and now sit at 2003 levels, well below international prices seen this time last year. The world has an increasing supply of beef products at present. Brazil, the world’s largest beef producer, saw their beef exports decline by 35% YoY in January 2009, due to lower demand. The increasing global meat stocks may have an effect prices down the track.

### Market Data Summary

<b>Equities (gross return)</b>	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX50	2,522	-9.1%	-7.0%	-24.8%	-29.6%	-9.5%	0.7%	3.9%
ASX200 (Local)	22,513	-4.6%	-9.5%	-33.1%	-36.9%	-8.2%	4.4%	6.1%
ASX200 (NZD)		-4.4%	-3.4%	-30.6%	-30.9%	-4.1%	7.0%	6.8%
MSCI World (Local)	1,340	-9.0%	-14.5%	-40.1%	-42.4%	-15.4%	-4.8%	-2.9%
MSCI World (NZD)		-9.4%	-8.3%	-22.0%	-15.2%	-7.5%	0.9%	-2.2%
NZX50 / ASX200(NZD) comp		-6.7%	-5.2%	-27.7%	-30.3%	-6.8%	3.8%	5.3%
<b>Bonds (gross return)</b>	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX 90 Day Bank Bill	549.60	0.3%	1.4%	3.6%	8.2%	8.2%	7.7%	6.7%
NZX Govt Bond Index	1,084.31	-0.3%	4.2%	10.2%	16.3%	8.2%	7.3%	6.9%
NZX Composite A Grade	2,946	-0.3%	4.1%	9.9%	16.5%	8.2%	7.3%	6.9%
<b>Property (gross return)</b>	Level	1M	3M	6M	1Y	3Y	5Y	10Y
NZX Property	1,775	-3.8%	-5.0%	-10.9%	-19.9%	-3.5%	5.0%	6.7%
ASX200 Property (Local)	13,623	-16.2%	-32.3%	-52.2%	-57.4%	-25.2%	-9.3%	0.4%
ASX200 Property (NZD)		-16.0%	-27.7%	-50.4%	-53.4%	-21.9%	-7.0%	1.1%
<b>Currencies (% change)</b>	Level	1M	3M	6M	1Y	3Y	5Y	10Y
AUD / NZD	0.7857	-0.2%	-6.3%	-3.5%	-8.6%	-4.3%	-2.5%	-0.7%
USD / NZD	0.5084	-0.9%	-7.8%	-27.7%	-37.7%	-8.3%	-5.8%	-0.3%
NZ TWI	52.3	1.2%	-6.1%	-20.4%	-28.6%	-8.4%	-5.2%	-0.9%
<b>Interest Rates (basis points)</b>	Level	1M	3M	6M	1Y	3Y	5Y	10Y
90 Day NZ Bank Bill	3.19	-52	-267	-499	-569	-432	-240	-149
10 Year NZ Govt Bond	4.51	26	-64	-150	-188	-125	-135	-134
10 Year US Govt Bond	3.02	15	9	-81	-51	-153	-97	-227
<b>Commodities (% change)</b>	Level	1M	3M	6M	1Y	3Y	5Y	10Y
Oil Prices (US\$/WTI)	44.76	7%	-9%	-61%	-56%	-10%	4%	14%
CRB Index	211.6	-4%	-13%	-46%	-49%	-13%	-5%	1%

**NZ Yield Movement**



**NZ Currency Movement**

