

June 2011 – Market Update

Domestic Market

Australia

- The S&P ASX100 Accumulation Index lost 1.66% during June, finishing the financial year with a reasonable 11.5% total return
- Our market continued to be driven by global macroeconomic issues, in particular the Greek debt crisis and the end to quantitative easing in the US
- Defensive stocks continued to outperform the cyclical, with Consumer Staples up again (+0.6%)
- Part of the positive move in Consumer staples was driven by a \$4.90 per share bid for Fosters (+18%) from SAB Miller. The FGL board has rejected the bid and the shares continue to trade at a premium to bid price
- Woodside (-12%) fell significantly on a cost and timing blow out for its Pluto LNG project. It is worth keeping an eye on companies starting up major projects, as this may prove the beginning of a trend
- In late June Telstra signed the long awaited NBN deal with the government, however the share price fell due to some concerns regarding the terms
- The RBA remained on hold again due to a drop in GDP growth domestically and concerns regarding the recovery offshore

Resources

Copper

- Price strength of late from US\$4.10 to US\$4.40 per pound now within US\$4.50 per pound record high set in February 2011
- World-wide recovery from GFC continues to underpin demand as off take fundamentals return to normal
- China continues to provide further growth in 2011, now accounting for 39% of world's refined copper demand (up from 28% in 2008)
- Japanese earthquake in February knocked 0.6% off country GDP but still as world's third largest economy
- Potential substantial supply gap from 2020 onwards
- 2011 price expected to average more than 2010's US\$3.60 per pound

Steaming Coal

- Chinese seasonal (summer) power shortages much earlier than expected due to strong demand and lack of generating capacity investment
- Government has ordered power rationing in various provinces to alleviate blackouts
- Such long term factors positive for Asia Pacific thermal coal prices
- Domestic Australian prices now on par with Newcastle export price as Chinese independent power producers source coal from international market
- Seasonally strong northern hemisphere summer is increasing thermal coal imports
- Current spot of US\$120 per tonne likely for balance of calendar year

Platinum

- Auto catalyst demand up 43% in 2010, to 3.1 million ounces
- Chemical sector off take 53% higher over same period, to 445,000 ounces
- Ongoing production outages from largest producer South Africa due to electricity, skilled labour and water shortfalls plus political factors and technical mining difficulties
- By-product nature of output from base metals mining in Russia and much of Canadian operations has restricted production
- Tighter emissions standards typically require increased platinum per auto catalyst
- Rebound in vehicle demand from developed economies in 2012-13 to underpin prices longer term

International

US

- Consumer confidence at 7 month low, spending weakest in 12 months, housing prices down 4% year on year
- Peak in oil prices is a positive
- Monetary policy trumps most other factors & sharp rebound suggests a move to new highs YTD is possible

UK

- Producer Manufacturing Index (PMI) fallen to a 2 year low as economy continues to back slide – Bank of England (BE) warning of 3 more years of pain before things improve!
- Market testing high's for the year and move higher supported by the US trend looks possible but fundamentals are poor, prefer US

Europe

- Debt crisis has been delayed but not resolved and will remain a negative
- Inflation at 2.7% remains above 2% target, some evidence of growth easing as German retail sales have biggest drop in 4 years
- Increasing rates a negative, unlikely to be best performing equity markets despite the trend being up, prefer US

ASIA

China

- Inflation still rising but moderating, until it peaks it remains the key negative for markets
- Reserve Requirement Ratio (RRR) increased again but close to peak in monetary policy
- While monetary policy tightening remains in place the market will remain in its 18 month range, but a change in policy will open the door to rally

South Korea

- Household debt is higher than US during GFC & is strangling domestic consumption, Central Bank taking measures to correct this
- Exports still booming

- Despite rising interest rates the market trend is still upwards

Bonds

US

- Yields fell to new lows YTD and below 3% as Greek debt crisis dominated sentiment, flight to quality into US debt hard to comprehend given US debt levels

UK

- Yields fell to new lows YTD driven by stalled economy and increased chance of QE by the B of E

Corp Bonds

- Corp Bonds High grade & high yield spreads have increased marginally, but record investor inflows is a negative for contrarians