



Who do you believe?

The economy or the market?

The Bulls and the Bears

February 2008

Karl Paganin

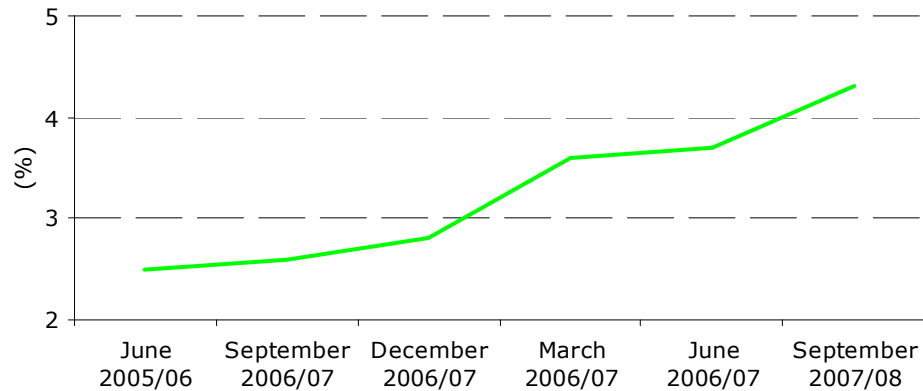
Executive Director

Euroz Securities Limited

EUROZ
SECURITIES LIMITED

Who do you believe?

GDP growth



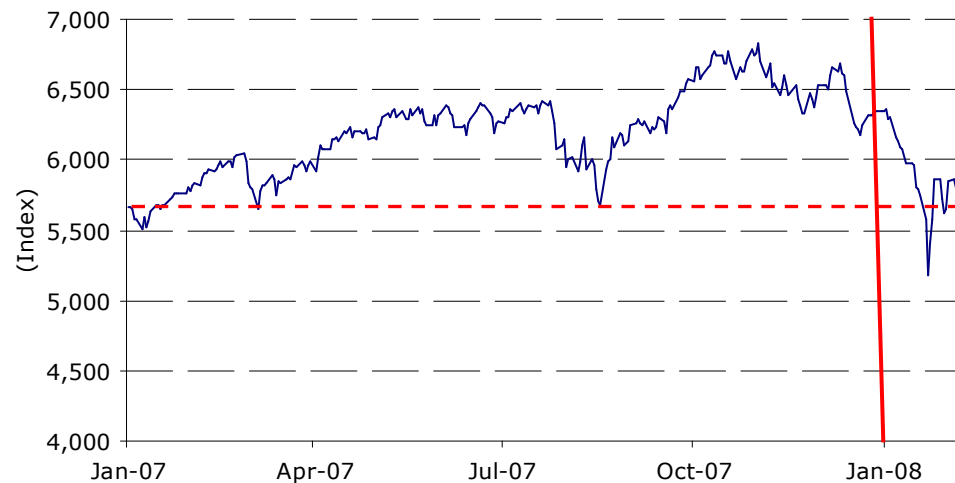
The economy

.....quarter after quarter of record GDP growth

The market

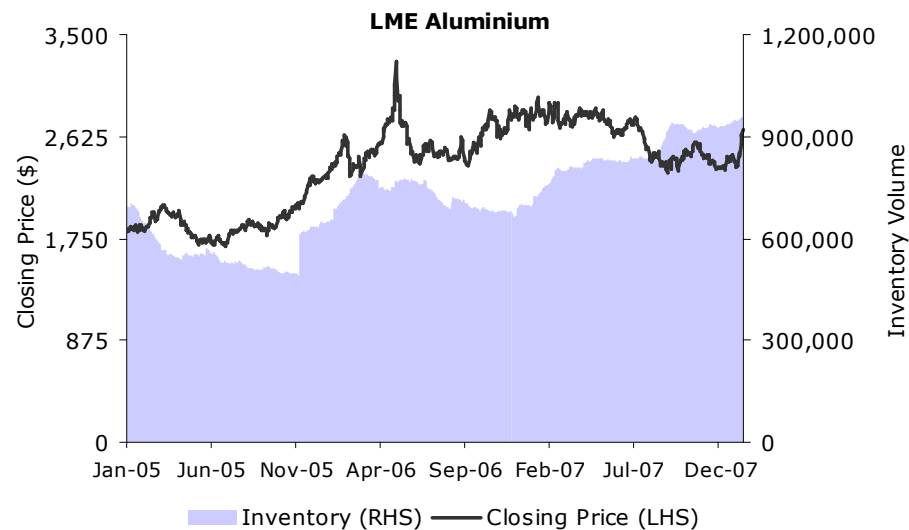
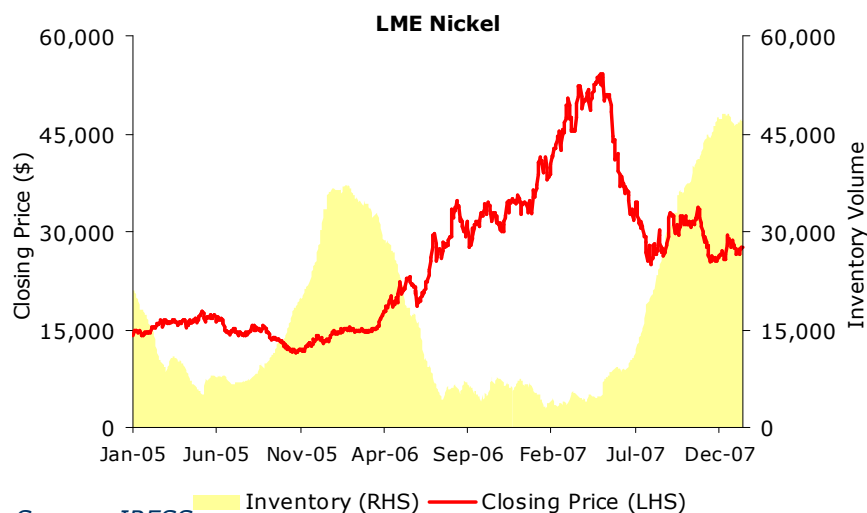
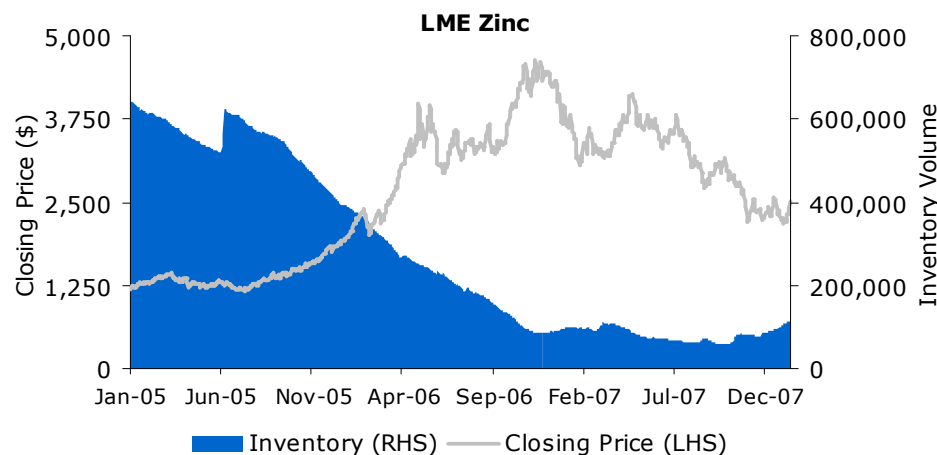
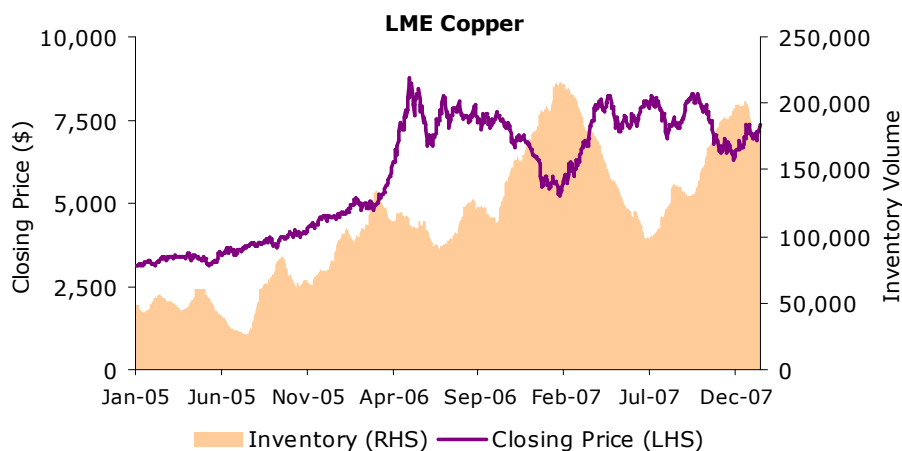
.....12 months of gains wiped out in 4 weeks

S&P ASX 200



Commodity Outlook – Balanced Base Metals

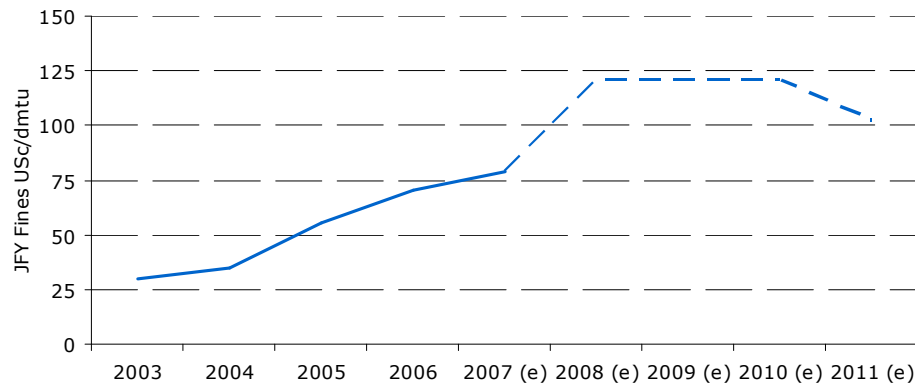
- The main base metals – copper, aluminium, nickel and zinc all remain fairly well balanced with inventories at moderate to low levels



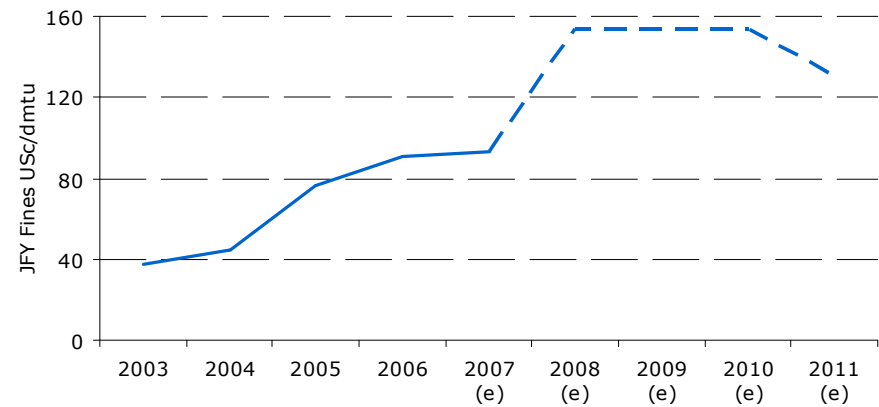
Source: IRESS

Commodity Outlook – Bullish Bulks

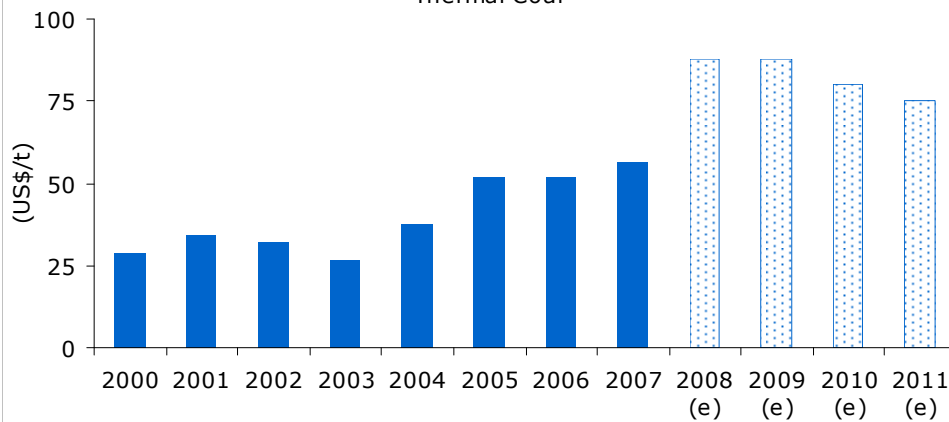
Iron Ore Fines



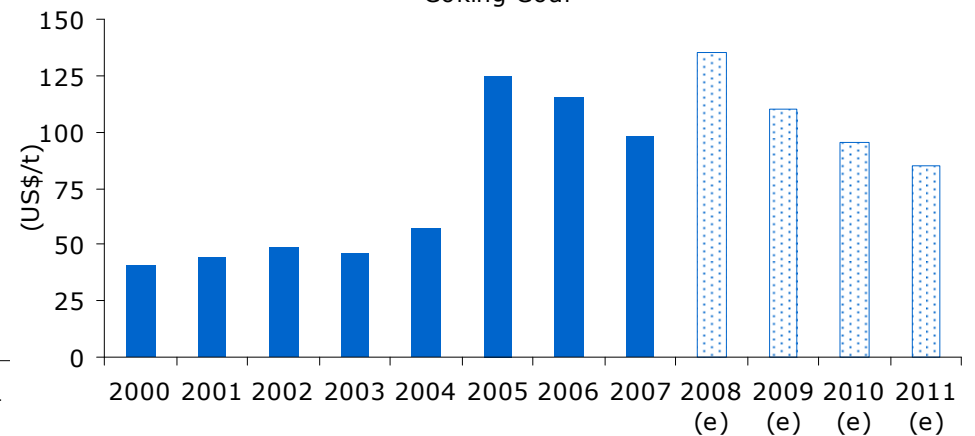
Iron Ore Lump



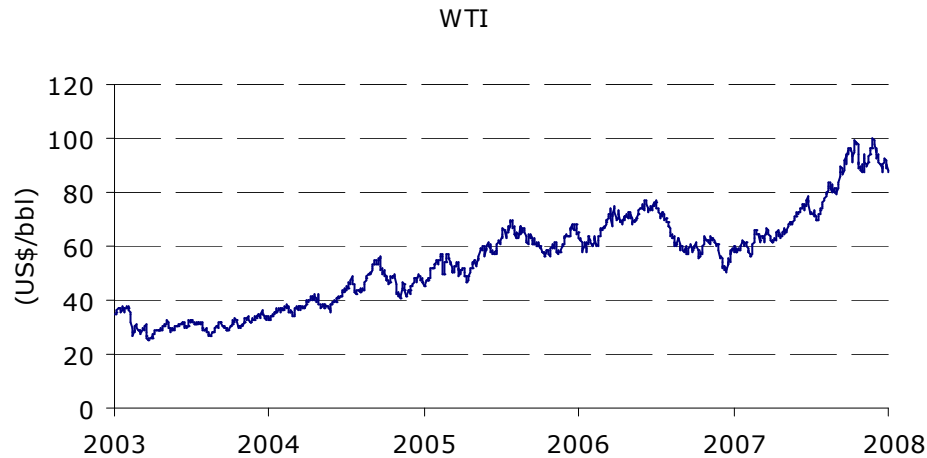
Thermal Coal



Coking Coal

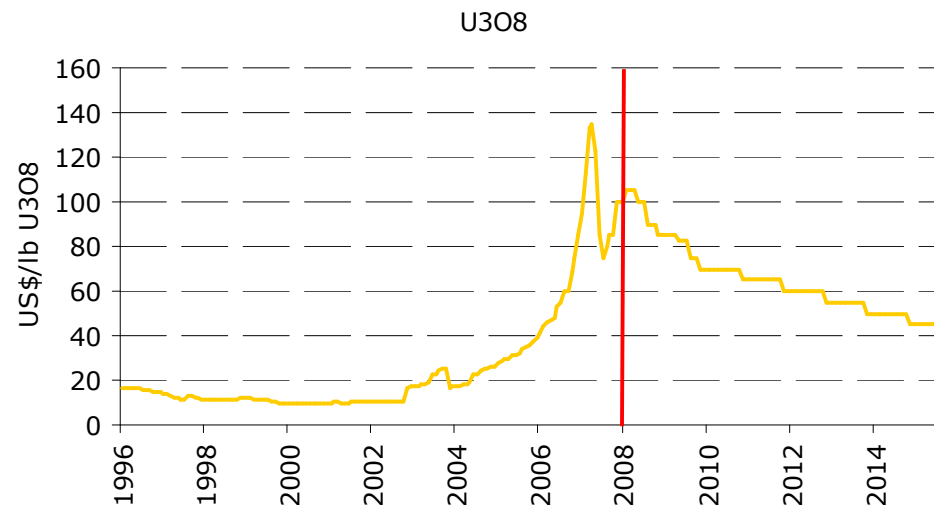


Commodity Outlook – Energy

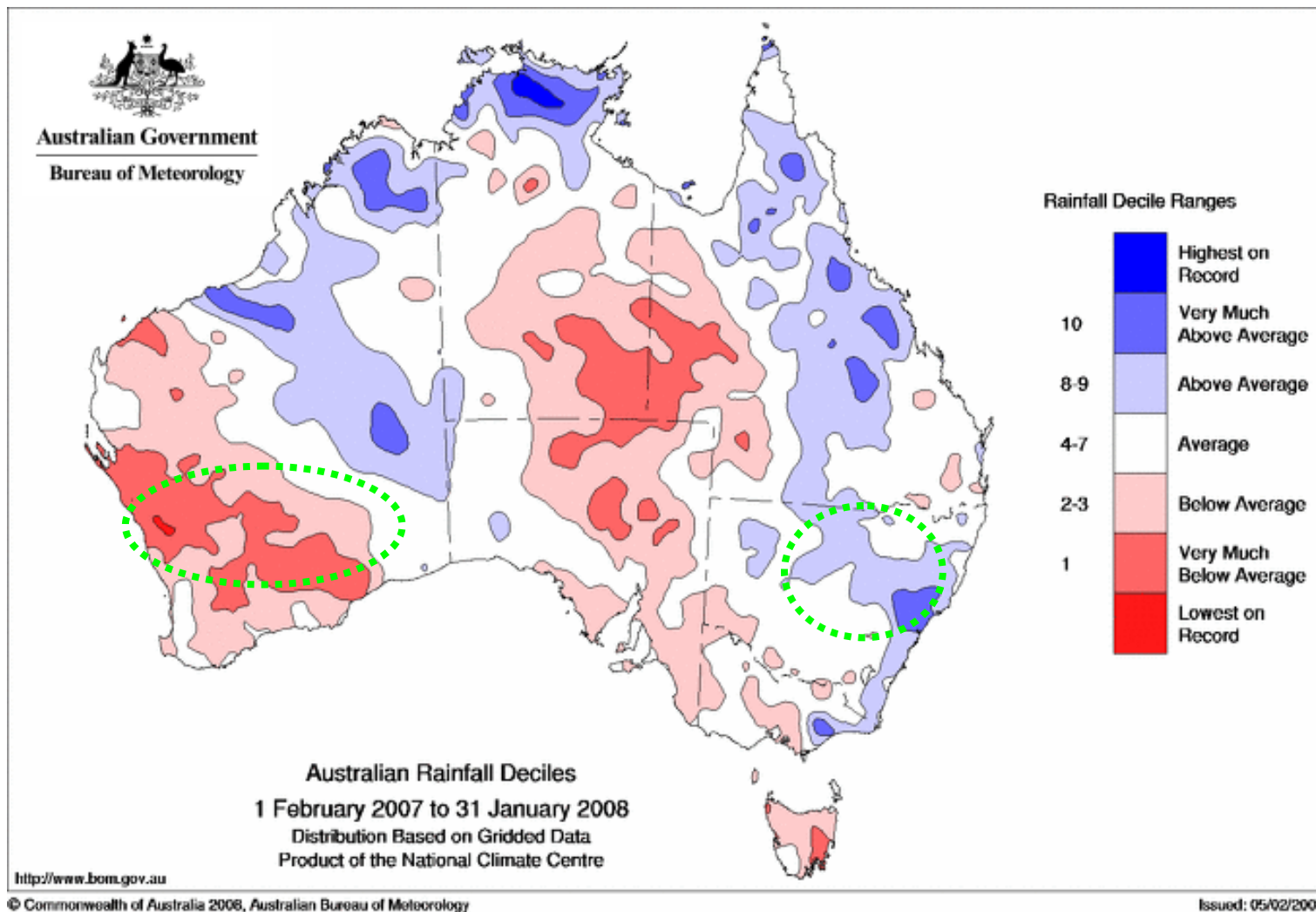


.....The downside risk for energy prices remains low as new supply struggles to keep pace with demand

.....Australian industry remains somewhat insulated by the increase in global energy prices due to the strong Australian dollar

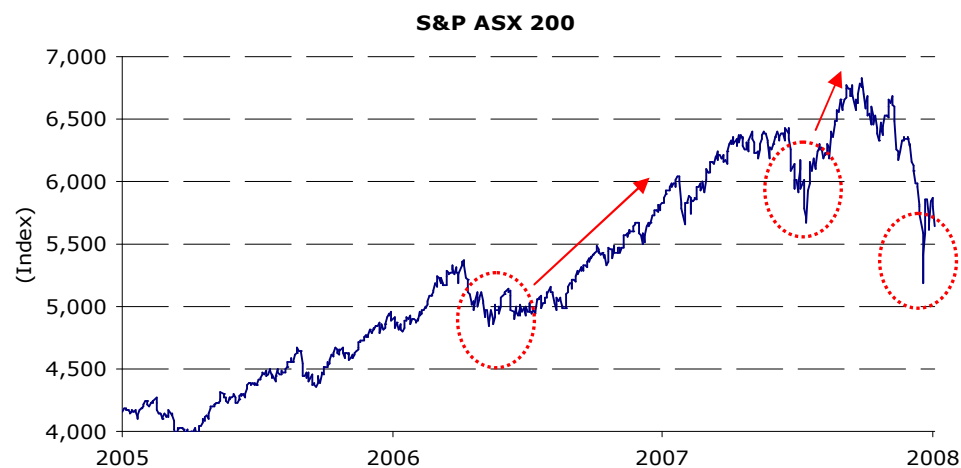


Commodity Outlook - Climate Change



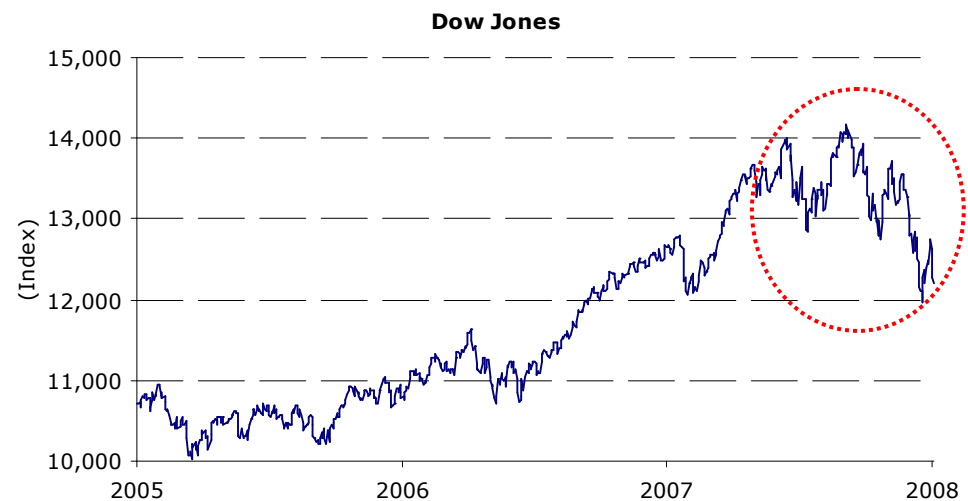
The bull correction?

- ASX has shown amazing resilience in recent times to bounce back from savage corrections to new highs (August 2007, May 2006)

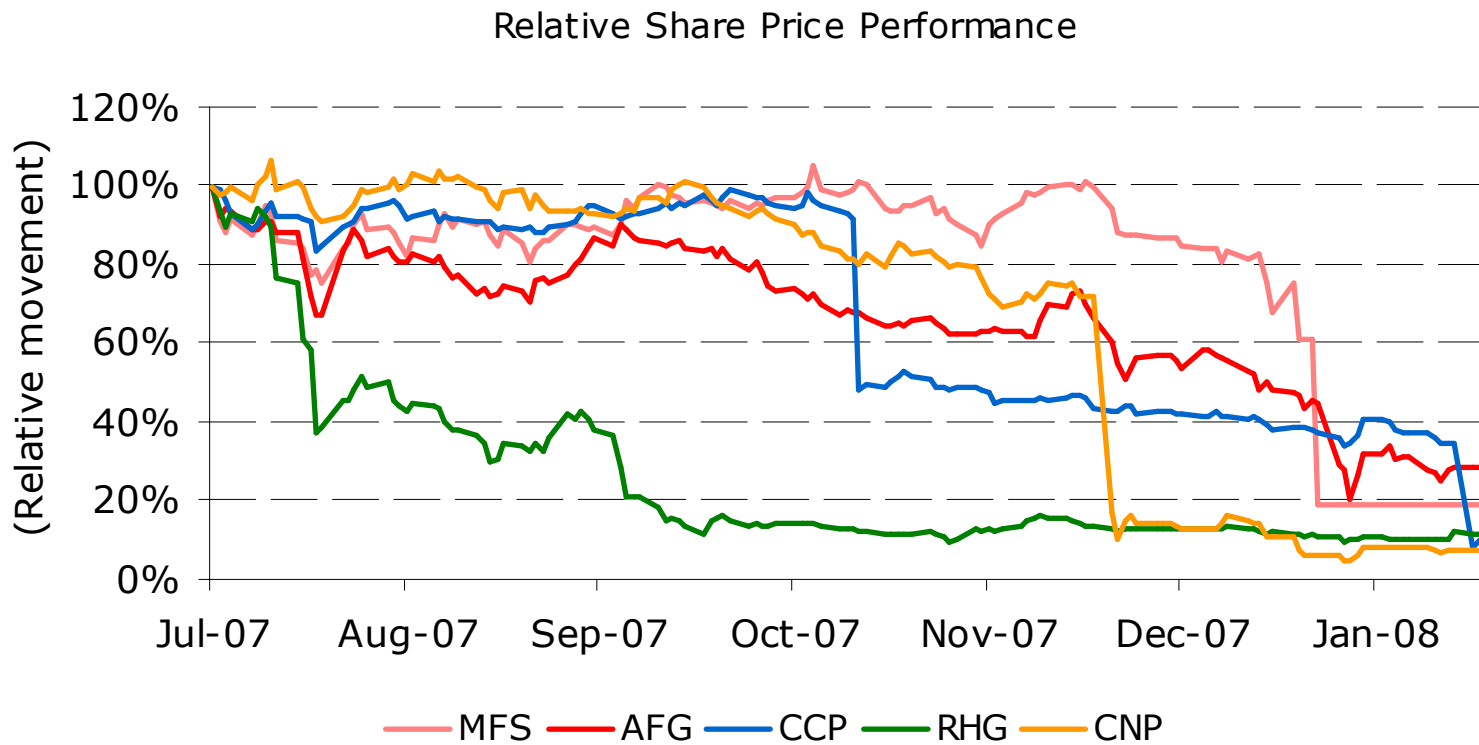


So what will be the market's future direction?

.....Dow Jones has shown less resistance progressively sliding to new support levels over the past 12 months

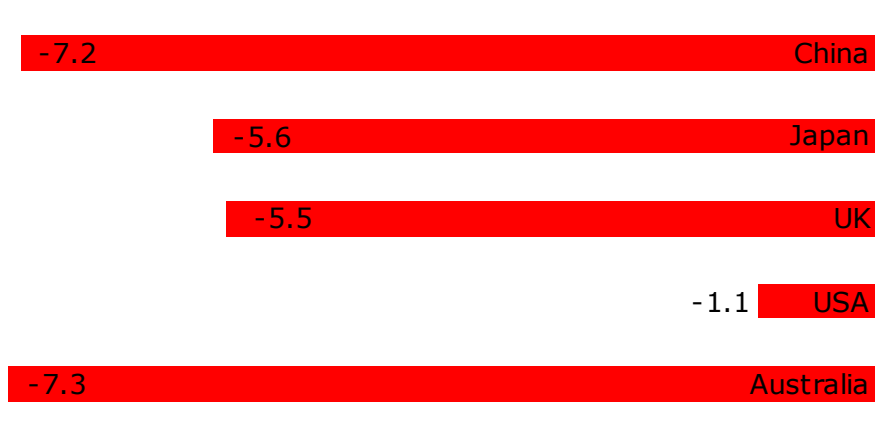


The bad news bears



The resource bust?

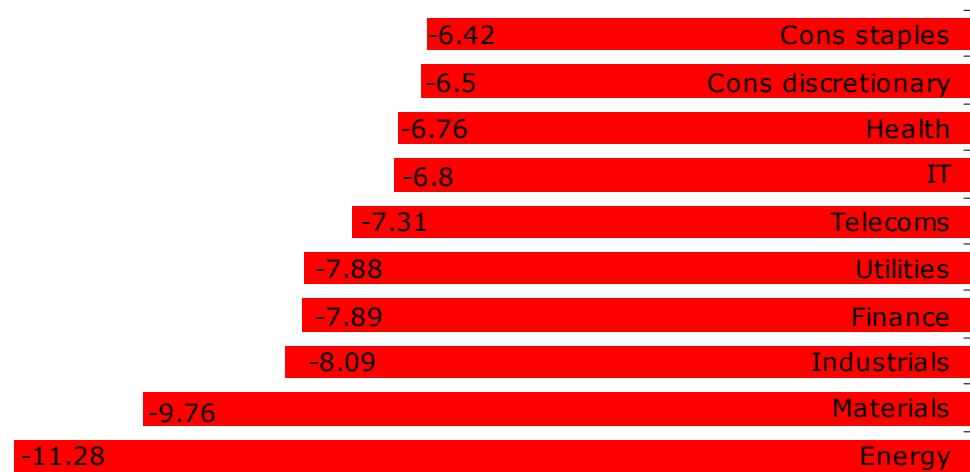
Global market's one day plunges (%) - 22 January 2008



.....Australia was one of the hardest hit reflecting the strong run the market had experienced over the past 3 years

.....the correction (7.3%) was the fourth biggest single day loss in ASX history – by comparison October 20 1987 was 25%

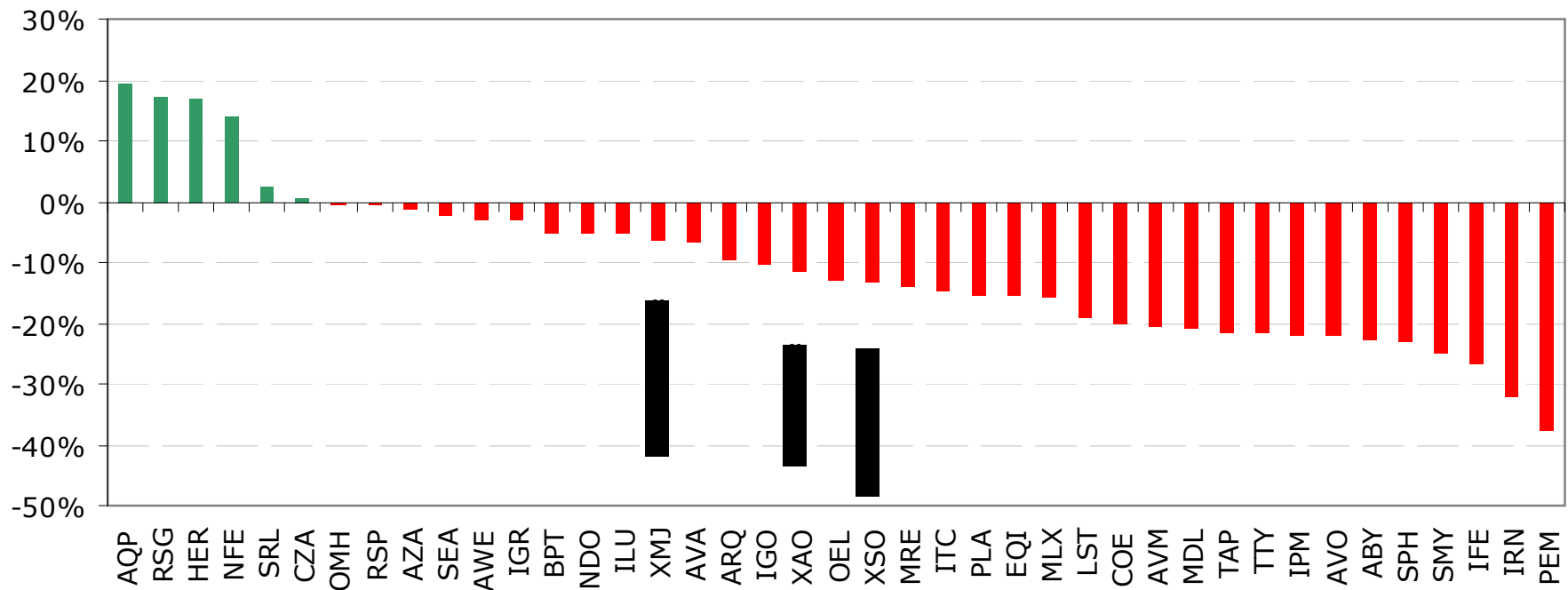
ASX Sector Falls (%) - 22 January 2008



Where to from here?

- Institutions and funds will be focused on value recovery stories where positions have been oversold

Share Price Movement
1 Jan to 6 Feb '08



December numbers have indicated caution

Key themes

- BHP posted its first profit decline in five years
- Irrespective of recent market weakness, many companies have done or are expected to post strong results vis a vis trading multiples
- While no results were as yet disastrous the consequences for bad news have been savage – CCP, MFS, AFG

Hits

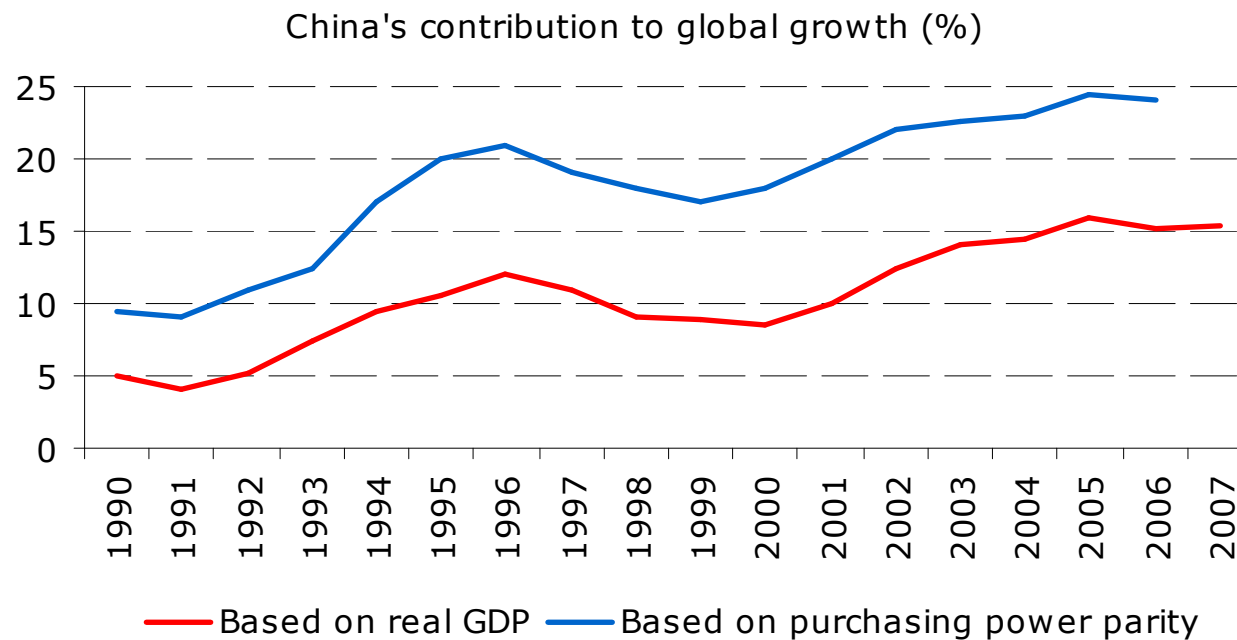
Alesco
Bradken
News Corp
GUD Holdings
Navitas

Misses

BHP Billiton
Credit Corp
Emeco Holdings
Boom Logistics
Zinifex
United Group

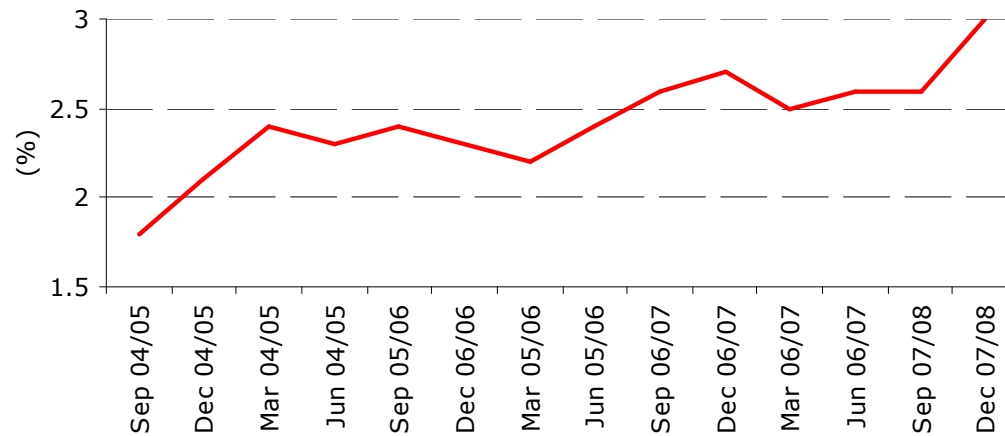
Decoupling theory

- History suggests that Chinese exports could now slow in the face of a US recession
- However this ignores the important role that domestic demand has played in China's growth

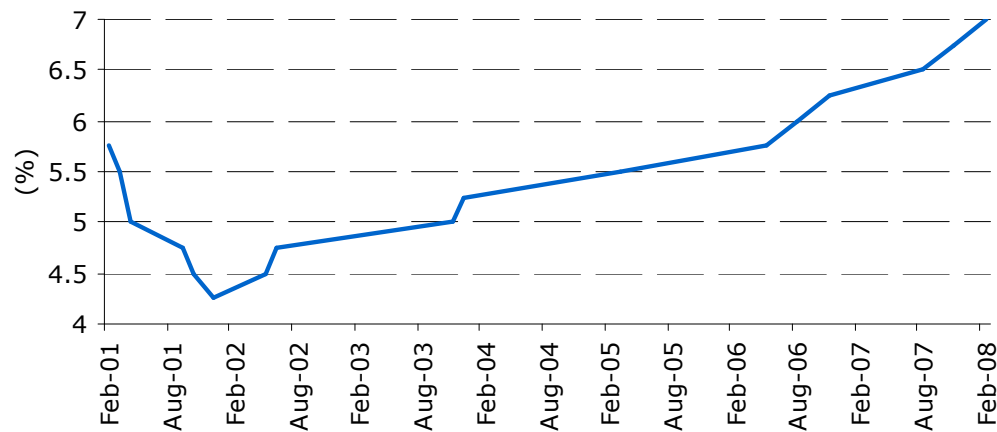


Domestic Inflationary Pressures

Australian Core Inflation



RBA Target Cash Rate



Consolidation amongst Australian resource companies

- Top takeovers initiated during 2007 include:

Target	Buyer	Value (\$bn)
Rio Tinto	BHP Billiton	165.0
Alcan	Rio Tinto	44.0
Jubilee Mines	Xstrata	3.1
Consolidated Minerals	Palmary	1.1
Bolnisi Gold	Coeur d'Alene Mines	0.9
Summit Resources	Paladin Resources	0.8
Herald Resources	PT Antam/ Zhongjin Nonfemet	0.5

- Value of Chinese Strategic Stakes in Australian Resource Companies

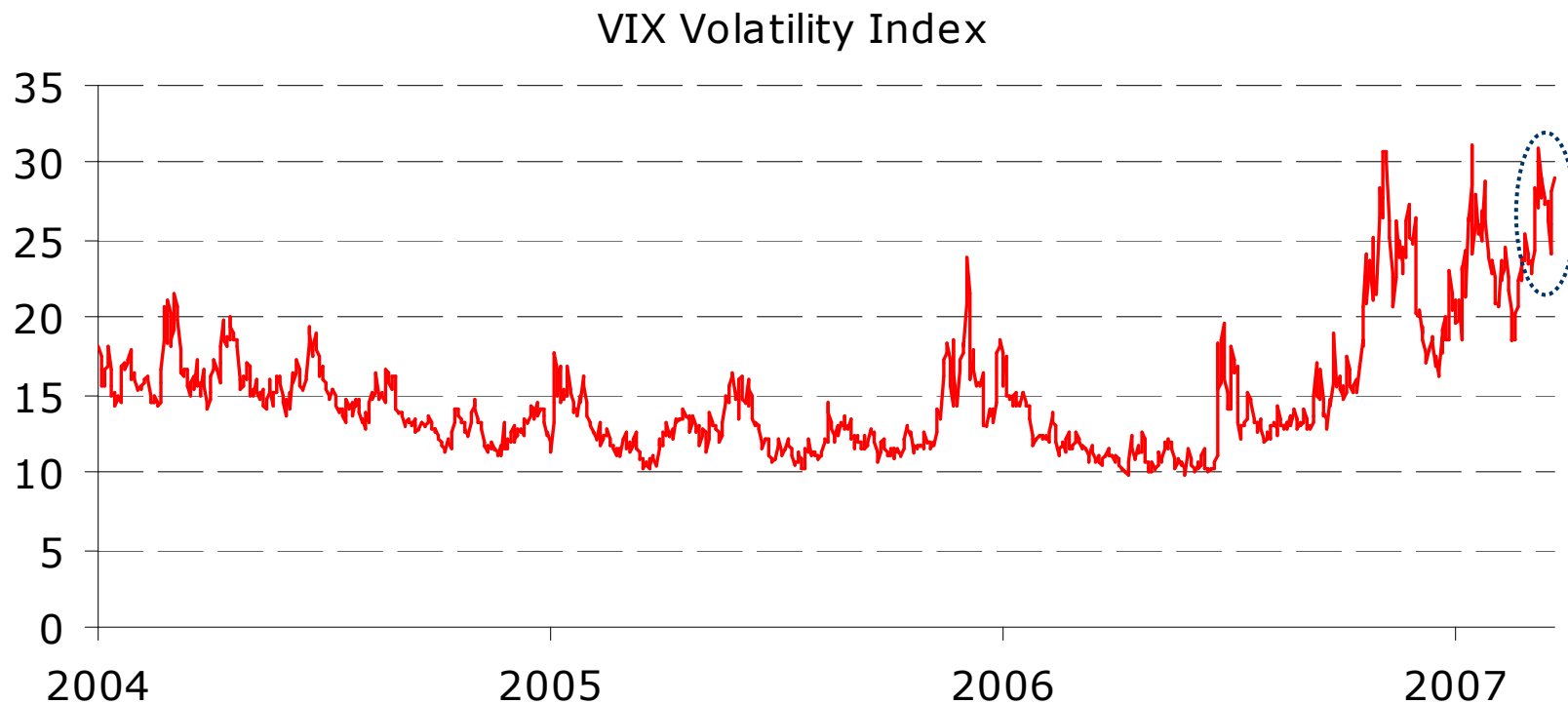
Company	Size of Chinese Investment
Rio Tinto	\$15.6 billion (Chinalco 9%)
Mount Gibson Iron	\$928 million (Shougang 40%)
Midwest Corp	\$189 million (Sinosteel– 20%)
Allegiance Mining	\$77 million (Jinchuan – 10%)

The proliferation of the Mega-merger



Is this the bottom?

- A spike in the VIX Volatility Index is often a sign of the market bottom
- The index reached its highest point since 2001 in the last week of January



- Commodity prices remain strong and the outlook for the Australian economy is resoundingly positive
- China continues to outperform year-on-year and should soften the impact of any further fallout in the US – the decoupling theory is real
- The January correction has meant that many shares in resources/energy and mining services are now trading at very attractive multiples
- Focus on recovery stories where positions have been oversold