Week

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Stories To Read From FN Arena

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Passionate About Financial News

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FYI

China In 2007: More Of The Same

By Greg Peel

Much was written towards the end of 2006 that suggested government moves to rein in China's continuing growth explosion to slightly more manageable levels would see growth fall from its 10% level of the last four years to more like 8%. Hardly a significant turnaround, but better than a blow-off top.

The result of such a contraction, accompanied with a slowdown in the US and other global centres, would ensure some relief in commodity prices and hopefully thus inflation, the pundits argued.

Well commodity prices have been doing their bit, yet there is no evidence yet of anything much different going on in China. The big surprise for many was the sudden fall in the oil price, triggered, in theory, by a warm US winter. It goes to show China is not the only global driver. The weather factor added momentum to what was otherwise a general commodity price pullback based on clear evidence of US economic slowing (but not collapse).

The analysts at GaveKal Research cannot find any reason to believe China will achieve any sort of forced easing of the economy in 2007. They are tipping a fifth straight year of 10% GDP growth. The government will tweak around the edges, but achieve little of consequence.

GaveKal further sees fixed asset investment rising by 20-25%, exports and imports both rising by 20%, and loans by 15%. Consumer price inflation will be around 2% and the trade surplus will increase from US$180bn to US$240bn. Corporate profits will continue to grow and may yet receive a boost from lower oil and commodity prices. This is "sustainable" growth, says GaveKal, with lack of domestic consumption growth being the only real concern. However, consumption growth is more of a five year story, the analysts suggest.

Such growth accompanied by such insignificant inflation is a bit of a dream scenario, but how long can it last? GaveKal suggests there will be no change in at least the next 18 months, as productivity is continuing to grow faster than wages. Eventually the new worker flow will begin to recede, and some sort of rural/urban equilibrium will be reached. At that point wage inflation will begin to emerge. However, that is not likely for a while. 2011?

Alternatively, the US or Europe could become protectionist, putting a big hole in China's external demand. This would lead to a deflationary environment, as domestic consumption has yet to grow substantially. It's hard to see protectionist policies in the US while the Democrats control Congress. It's a whole year till we know which party will take the US forward.

The Chinese government will continue in its process of quietly raising interest rates and quietly revaluing the renminbi, GaveKal suggests, as part of the stimulus package for domestic consumption. Nothing spectacular will occur before 2008.

However, the Shanghai A-share index may well be spectacular, with GaveKal tipping a yearly return of 50%. This sounds all very exciting, until you realise that (a) it was up 130% last year (b) foreigners can't buy A-shares and (c) A-shares can trade up to three times the value of the Hong Kong-listed H-share equivalents that foreigners can buy.

The big question for most is what will happen to China's seemingly insatiable demand for the world's commodities. GaveKal analysts do not pretend to be commodities experts, but suggest that their 10% growth forecast implies continuing commodity demand, albeit with the now standard level of volatility derived from the frantic stocking/destocking cycles that carry on from month to month.

As far is oil is concerned, China's crude oil imports have shown annual growth levels of 30%, 3% and 15% over the last three years. Not much of a pattern there. (The car is the big potential influence, particularly as domestic consumption initiatives are implemented, and environmental concerns are not responded to quickly).

One thing GaveKal does warn of is the capacity for Chinese commodity substitution. As an example, the Chinese are working small iron ore mines with less than 20% iron content (BHP would want 60%) and bringing it to market at the same price as the ore landed from Brazil.

And if you are looking for an alternative for Sydney's ridiculous property prices, GaveKal sees Chinese real estate remaining a very bullish prospect.

Inflation Picking Up In India, But Will Rates Move Higher?

By Chris Shaw

With the Reserve Bank of India (RBI) to meet on January 31st to consider a change in official interest rates DBS Group sees a number of reasons why a further tightening is justified, but also cautions as to why such a move may not occur.

In the group's view inflationary pressures certainly support a move to higher rates, as while the CPI has been running at between 6.7-8.3% year-on-year the WPI, which is India's official measure of inflation, has now moved above the 5.5% level that marks the government's upper limit in terms of inflation projections.

It is currently at 6.12%, DBS suggesting both it and the CPI are giving strong indications inflationary pressures are continuing to build in the economy. It notes the pressures are emerging in both manufactured goods and primary products, with strong economic growth and rapid credit creation fuelling the inflationary fires.

On its estimates the figures support a 25-basis point increase at the meeting, but it cautions fundamental justification may not be enough reason for rates to move. This reflects the recent move by the government to give the RBI the authority to adjust the Statutory Liquidity Ratio (SLR) when conditions require a change.

This has created the problem of blurring the distinction between rational economics and populist policies, DBS suggesting this is unlikely to be resolved prior to upcoming state election in March.

As an example, it notes there is talk of the government extending subsidies on cooking gas and kerosene beyond March and of possible cuts to fuel prices, both of which would be at odds with an increase in official interest rates.

The group points out the situation is one where the government is focused on growth and the RBI is focused on inflation, making the implementation of policy more difficult for the RBI.

As a result it suggests while rates should move higher, there is the possibility of the RBI pausing at the upcoming meeting while looking to implementing different policy options going forward, such as changes to bank cash reserve ratios, which would act as a de facto tightening in policy.

Resources Stocks – Beware The PP Factor

By Greg Peel

A disappointing quarterly production report from Rio Tinto (RIO) last week highlighted the effect of a once unremarkable element of resources company profit reporting – provisional pricing. When commodity prices used to move more slowly from month to month, the effect was not so noticeable, but since commodity price volatility has greatly increased, the story is different.

It is a fact of life in this digital age that commodities such as copper still travel across the world's rail networks and oceans from their source to their destination in a process that can take up to six months. A resources company will apply a "provisional price" in order to value a shipment when it leaves, and then adjust that price on arrival. Merrill Lynch notes that BHP Billiton (BHP) reprices its copper on arrival at the lower of spot or three month forward, while Rio Tinto simply uses spot.

While commodity prices were still in rampant bullish mode, this process most often proved a winner for the bottom line, but since some commodity prices have now retraced significantly, the result will be reversed.

Merrill Lynch thus warns that BHP and Rio in particular will likely suffer from adverse price adjustments over the first half of 2007. UBS extends this warning to all resources stocks.

Should investors thus be getting out now, ahead of poor market reaction? Not according to JP Morgan. The analysts note the underperformance of BHP and Rio recently, and suggest that even were commodity prices to collapse back to more realistic base-case or long term prices, the two miners would still be oversold. Morgans does not believe this is at all likely anyway.

Rio, says Morgans, and to a lesser extent BHP, are still good value at this level. The FNArena database currently shows both BHP and Rio with 8/2/0 B/H/S ratios. The two dissenters are Merrills and Macquarie in both cases. These analysts do not dismiss the medium term value of the big miners, but anticipate further short term weakness as commodity prices adjust.

For the investor, it's a matter of time horizon. There's been little joy lately despite general analyst enthusiasm.

Investors Not Overly Excited About ConsMin Rumours

Consolidated Minerals (CSM) shares are up more than 4% this morning, but given a detailed report about a rumoured Russian bid for the company, probably next week, this appears a rather weak response. Maybe some of them still remember the Russian deal by Ainsworth (AGI) – the one that first excited the market and got canceled not long after.

Takeover rumours for a company as "ConsMin" should be regarded as "normal" these days. After all, we're talking about a very ambitious resources junior who developed into one of the success stories of the past few years – until reality hit home.

ConsMin's share price was above $4 until mid-2005. It has been one big slide ever since thanks to the company's manganese operations, from which challenging market dynamics ruined the buoyant prospects for the nickel division.

Now the West Australian has reported that a bid for the company's manganese and chromite operations is near. But then again, as is often the case with rumours (and Russians), one never knows whether the bid will actually extend to all the company assets.

On Friday, the newspaper quoted ConsMin CEO Rod Baxter as "I can confirm we are still in discussions".

The company is scheduled to report its December quarter production report on January 29. The West Australian speculates whether that will be the day a bid will be announced as well.

At close to midday, ConsMin shares were up 10c, 4.74%, at $2.21 in higher than normal volume. The Australian share market opened the week on a higher note thanks to a sharp rebound in energy and metals prices on Friday.

Boom Could Boom Again

By Greg Peel

An opportunity exists in crane hire company Boom Logistics (BOL), Intersuisse analysts believe, for the investor who doesn't dither. Boom boomed up to May last year, driven by its industrial and resource sector-led hire business expansion, but it faltered along with the resources sector thereafter and has failed to recover.

Boom hit $4.89 last May before slipping back under $4.00. Trading at $4.12 today, Intersuisse feels the stock will shortly be re-rated by the market, having been largely overlooked for a few months. The broker put an Accumulate rating on Boom at $4.16 last October, but since then little news has come out of the company and it has slipped off the radar.

Yet Boom's EPS growth in FY06 was an impressive 46%, with 13% organic and the remainder fuelled by acquisitions. Its main business is "wet hire" where not only does Boom hire out the crane, it provides the driver and participates in the customer's maintenance operations. 70% of Boom's business comes from maintenance – 31% in the resource sector – and customers are typically long-term. Intersuisse estimates Boom's EPS will grow by another 25% this year, with around 13% remaining organic.

Boom will continue to acquire, notes Intersuisse, and the full effect of the Camilleri Industries integration has not yet been felt. Camilleri was acquired last April and required a capital raising. It was this raising that put the boot into Boom just at the time of the commodity price correction.

Intersuisse notes: "Key sectors for Boom – resources, industrial and engineering construction – have a strong and positive outlook expected to continue for the next two to three years. Increased production and investment in resources, activity from energy producers in the petro-chemical and electricity sectors and in the development of roads, ports, rail and infrastructure projects are all drivers for Boom's growth."

Intersuisse suggests Boom's FY07 P/E is now a low 15x and is set to fall below 12x in FY09. The FNArena database shows Boom with a 5/1/0 B/H/S ratio and an average target of $4.94, although most recent broker reports date back to August, which just goes to highlight Boom's lack of attention of late.

Intersuisse now rates Boom as Buy with strong upside.

US Uranium Exploration Paying Off For Black Range

By Greg Peel

One aspect of investing in Australian uranium explorers is that unless they have projects in either South Australia or the Northern Territory it could be a long time waiting for pay day. Not so for Australia's Black Range Minerals (BLR) which has announced a significant increase in the exploration potential of its Taylor Ranch project in Colorado.

Black Range thought it might be sitting on 900 to 1400 tonnes of U3O8 but after drilling 550 holes the estimate is now for 4500 to 6800t in a system that extends for more than five kilometres.

Black Range's share price has doubled from 5c to 10c since October, and with numerous projects to be advanced in 2007, Intersuisse rates the company a Speculative Buy. To add weight to Black Range's forecasts, Taylor Ranch lies "along strike" from the 13,600t Hansen deposit. The company should complete a resource estimate for the project in the second quarter of 2007.

Black Range has enjoyed an alliance with uranium heavyweight Uranerz Energy Corp since June, managing and conducting uranium projects jointly identified. Uranerz is then responsible for bringing them into production. The alliance already has further prospects in Wyoming and is continuing to negotiate to acquire several more advanced US projects. As an aside, Black Range also has an option to acquire an old Wyoming copper/gold mine that has laid idle since a fire in 1908. Estimates suggest one million tonnes of ore at 5-6% copper and 3-4g/t of gold.

But wait, there's more. Black Range is also sitting on 5.75mt of ore near Broken Hill containing copper, zinc, gold and silver. Says Intersuisse "Black Range is successfully building a portfolio of quality advanced resource projects with near term production potential."

None of the major brokers in the FNArena database cover Black Range Minerals.

Merck Sale Would Lift Competition In Australia's Generic Drug Market

By Chris Shaw

As reports continue to circulate regarding a possible sale of its generic drug business by German pharmaceutical company Merck KGaA, Austock Securities has also weighed in with its view of the possible implications in the Australian generic drug market.

As the broker points out, Merck controls Alphapharm here in Australia, which is the largest player in the domestic generic drugs market despite a loss of market share in recent years.

This suggests one implication of any sale is an improvement in the performance of the company, as a new owner is likely to be more focused on addressing this market share decline. This is clearly not a positive for locally based competitors such as Sigma Pharmaceutical (SIP) and Genepharm Australia (GAA), as it would signal a period of tougher competition.

The broker notes both companies are not in the running as buyers, Sigma as there would be competition issues and Genepharm as it simply cannot afford an acquisition the size of Alphapharm.

This leaves offshore or private equity players as the likely buyers, but it is here the broker sees some prospect of hope for the Australian players. As an example it notes one potential buyer is India's Ranbaxy, which would likely move some of the manufacturing offshore for cost reasons. This would allow the Australian companies to emphasise their "Australian Made" credentials, something likely to become an issue given the strict TGA labelling requirements.

Purchases by European drug companies are unlikely to result in much change to the market structure in the broker's view, but again it stresses the likelihood of increased competition for domestic companies, especially in the period immediately after any sale.

ABN Backing CSL As Private Equity Target

By Greg Peel

The dawn of 2007 has provided no let up in the relentless private equity surge and its accompanying rumour mill. The risk of missing the next big mover has also sparked analysts into scouring balance sheets for potential takeover targets.

To that end, the team at ABN Amro Warrants has singled out blood biotech CSL (CSL) as having a tick in each of the requisite boxes.

The team notes the industry within which CSL operates is a complex one with high barriers to entry that ensure competitors do not just pop up overnight. It is also a high growth sector and that's just the sort of playing field private equity is looking for. Being involved in healthcare further means CSL is largely immune (sorry) to any economic downturn.

CSL closed yesterday at $67.43 but applying the 20% internal rate of return required by private equity ABN suggests an acquirer could pay up to $72.00. ABN also sees room for improved efficiencies at CSL and this is exactly what the vultures look to swoop on. (No offence meant).

CSL has its innovative plasma products out there in the world being constantly evaluated. Each step of approval is a feather in the cap and a re-rating possibility. While the process can sometimes prove painfully glacial for the impatient investor, the upside still has 6 out of 9 brokers in the FNArena database calling CSL a Buy. This despite the stock having run from around $45 to around $65 last year.

To top it off, ABN Warrants makes note of the technicals as well. The chart below shows that a breakout over $66 would have people who follow charts very excited.

ABN is recommending their July "HOT" instalment warrant (CSLIZ9) as a providing better value than ordinary shares. With a delta of 0.82, this warrant provides at least a dash of optionality amongst an otherwise 1-delta bunch.

ABN is targeting $72.00 against an FNArena database average of $69.84.

News To Join Recommended List At Macquarie

By Rudi Filapek-Vandyck

One of our very well-connected sources in the market has informed us that Macquarie has indicated it will add News Corp (NWS) to its list of recommended stocks.

Macquarie's decision is based upon the perception that management's increased focus on financial and shareholder returns is starting to pay off with the broker flagging News Corp should now be considered one of the growth stocks in the market that will consistently perform well.

In addition, the broker believes the pending re-inclusion in the S&P/ASX200 index should provide the shares with a boost as well (under whatever shape this process will be conducted).

Macquarie currently rates the stock Outperform with a price target of $36.42. The FNArena database shows the broker is not alone in its positive stance with the shares currently enjoying a 7/1/0 B/H/S ratio which makes the stock one of the highest recommended in the local market. JP Morgan and ABN Amro currently don't cover the stock in Australia.

Alcan's Cost Blow-Out Makes Alumina Look Very Cheap

By Greg Peel

It was not a great 2006 for Australia's primary aluminium producer Alumina Ltd (AWC). The aluminium price was weak most of the year, and it did not rebound post May in the same way copper and nickel did. Rampant expansion of Chinese alumina production had a lot to do with it.

The result is a stock price that is not only trading below net present value, but also below replacement cost, as UBS' resource analysts calculate. UBS values Alumina at $6.83, and the shares closed yesterday at $6.47.

Now global aluminium (or is that aluminum) giant Alcan has announced that the expansion of its Gove alumina refinery in Australia's Northern Territory is going to cost 77% more than first thought back in 2004 – US$2.3bn, to be precise, up from US$1.3bn. "Additional tie-ins" and "weather related delays" have been blamed by management, UBS reports. The expansion is intended to increase Gove's capacity by 1.7Mtpa.

In hindsight, notes UBS, it would have been cheaper for Alcan to buy rather than build in this prevailing high-cost market.

To that end, UBS has extrapolated a value for Alumina Ltd as a fall-out from the Gove cost. The incremental cost has blown out from US$750/t of capacity to US$1350/t. Alumina's current stock price implies an incremental value of US$800/t, says UBS.

Put another way, if Alumina's refineries were valued at the Gove cost measure then Alumina would be worth $10.00 per share.

The aluminium price will always be Alumina's short term price driver, notes UBS, but everything points to Alumina being a value investment, all things being equal. UBS rates Alumina a Buy with a 12-month target of $7.30.

The average target in the FNArena database is $7.62, despite a split of opinions. With a B/H/S ratio of 5/4/1, it takes ABN ($8.91) and JP Morgan ($8.80) to bump that target up.

Paladin Considered A Better Option Than ERA

By Rudi Filapek-Vandyck

It appears that Cameco's pending update on what's happening at the troubled Cigar Lake project has caught everyone's attention these days. The share price of the world's largest listed producer of uranium recovered strongly overnight, though not enough to make up for Monday's losses.

The question whether Cigar Lake will commence production in early 2009 remains an open matter until Cameco management comes out with a firm commitment. As reported previously, Cameco intends to release an update on the project before the end of January. On February 6 and 7 the company will report and comment on its December quarter performance including all operational matters.

The institutional desk at UBS suggests this morning investors may consider it wise to take some profits in Energy Resources of Australia (ERA) after the recent stellar performance which took the shares beyond $21 a piece.

ERA, majority owned by Rio Tinto, is scheduled to report its final results for 2006 on February 1 but UBS says its practically impossible to calculate what the company's realised uranium price will be over the period. It is not the first time ERA is copping some criticism due to a lack of transparency. UBS believes it "seems sensible" to take some profits at current price levels.

Upcoming uranium miner Paladin Resources (PDN) is considered a much better option this time around. Uranium is still a sexy commodity and Paladin's leverage to the rising spot price plays in its favour, UBS suggests. Paladin will update the market in February as well. (Our calendar says interim results on Feb 14). Watch out for management's update on the Langer Heinrich commissioning, says UBS.

Investors seem to have drawn similar conclusions this morning with Paladin shares up 3.25%, 28c, at $8.89 in a firmer Australian share market. ERA shares are only up 3c, 0.14%, at $21.23.

CBH Returns To Profits, But Is It A Buy?

By Chris Shaw

Since taking over Triako and experiencing operational problems at its Endeavour zinc and lead project the share price of CBH Resources (CBH) has fallen off its highs, but having addressed its operational issues is again attracting interest.

Stockbroker Intersuisse rates the stock as Buy, expecting the share price will be re-rated now Endeavour has returned to full production and as the company achieves production and project milestones over the course of the year.

The improved performance has emerged in the December quarter, as the company generated a 41% lift in production from the previous quarter with average zinc recovery of 85%, compared to 87% in 2005 prior to the mine difficulties.

Shaw Stockbroking was equally positive on the production side of things, noting zinc and lead output rose 48% and 52% respectively on the higher tonnage. The broker, who also rates the stock as Buy, estimates revenue for the quarter at $121m, up 88%, while management has indicated a return to profitability for the half year.

Intersuisse expects a full year earnings result of around $64m, rising to $75m in 2008, a solid improvement.

Macquarie is more positive in earnings terms, forecasting $78m this year and $92m in 2008, but rates the stock as Neutral on valuation grounds as it sees costs increasing in coming years.

While production is one side of the story the other is the company's development options, which has Shaw expecting a significant jump in earnings from the middle of next year. The broker highlights the completion of the bankable feasibility study on the Panorama zinc and copper project as well as the beginning of decline development at the Rasp lead and zinc project as examples.

Intersuisse is also positive on the potential at Mineral Hill, as it notes additional exploration is likely to result in a re-opening of the mine.

Shaw Stockbroking notes the financing side of the developments also looks good, as the company has or will receive this year about half of the $200m needed for capital expenditure, with the remainder to be generated from internal cash flows.

As a result, it has a share price target on the stock of $1.00, which compares to Macquarie's target of $0.70, which is more in line with ABN Amro's $0.71 target.

ABN also rates the stock as Hold but has yet to update its views. Shares in CBH are little changed today, as at $3.05pm the stock was 1c lower at $0.66, compared to a trading range for the year of 25.5c-85c.

UBS Upgrades Banking Sector

By Greg Peel

If there are two sectors that have the power to polarise analysts and traders in the Australian market its resources and banks. Not surprising given the weight of market cap these sectors provide within the index. While plenty has been said about resources of late, the banks have not generated quite so much noise.

It is generally agreed that banks are not cheap. UBS calculates 14.7x 2007 and 13.5x 2008 which is not great value on a historical basis. However, the analysts note, in comparison to the industrials sector in general the banks have fallen to a 78% relative P/E.

Low credit spreads and low default rates are reasons why some traders are just plain wary of banks – something's gotta give. Add in the private equity debt surge and there are some glaring comparisons to the bad old eighties. However, interest rates were much higher in the eighties.

UBS believes the Australian banking environment remains healthy, as revenues and earnings grow strongly along with credit, and bad debts remain benign. There is little evidence, says UBS, of credit growth "normalising" yet. Thus there is potential for further earnings upgrades in the sector.

With strong revenue growth and a 9% discount to the sector, UBS has ANZ (ANZ) as its number one pick, followed by Commonwealth (CBA), National (NAB), St George (SGB) and Westpac (WBC).

UBS is not alone in overweighting the banking sector. Merrill Lynch, for one, is another fan. But to confuse the issue, Merrills places St George at number one followed by Westpac – nearly the reverse of UBS.

And then there are the naysayers, such as Credit Suisse which has placed an Underweight rating on banks.

This doesn't make life easy for the investor. One thing to consider is that banks are popular with dividend players given their comparatively high yields.

Gloves Off Again Between Telstra And The ACCC

By Greg Peel

Hands up all those who got caught out by the success of T3. You bought some? Well done. The question is what to do now.

With the benefit of hindsight, it would be easy to assume that given institutional underweighting of Telstra (TLS) leading into T3, and the impact its addition would have on index weightings, it must follow that a lot of Telstra buying needed to be done. That seems to have been the case.

Going in to T3, the market was pretty well split on whether the instalments were worth buying or not, dividend notwithstanding. Generally, those brokers involved in the underwriting were pro (with the exception of GSJB Were) and those missing out were anti (with the exception of Credit Suisse). Deutsche Bank went from anti to pro overnight when they picked up a late inclusion.

JP Morgan has never been particularly pro, although the analysts had held a target that has basically come to pass. JPM now believes that the domestic buyers who needed to buy Telstra have, and that international funds will remain underweight given Telstra's premium to global peers.

There was a truce in place between Telstra and the ACCC while T3 was underway, but now that it's all over it appears Telstra has wasted little time in going back on the front foot. The telco announced yesterday it would make a constitutional challenge to the ACCC in relation to unconditional local loop (ULL) and line sharing service (LSS) pricing.

The challenge simply highlights the folly of the "is it public, is it private?" nature of the whole Telstra debacle. Telstra is arguing that its fixed network is being compulsorily acquired (in a public kind of way) through ULL without sufficient compensation for shareholders (a private concern). Thus the process violates the constitutional rights of the shareholders, it claims.

Darryl Kerrigan would know exactly how they feel.

JP Morgan does not want to argue constitutional law, but it does point out that proposed ULL and LSS prices are in line with European prices. The analysts also suggest that as the regulatory battles recommences, Telstra shareholders will be losers anyway. This view is very much supported by Merrill Lynch.

There is presently a 4/2/4 B/H/S ratio on Telstra in the FNArena database – a perfectly symmetrical split.

The strong supporters are Credit Suisse, which kept a $4.78 target for a long time while all about them were reducing theirs, and the aforementioned Deutsche. Deutsche has gone from backflip supporter to number one fan, suggesting the telco looks good on every front. It tops the targets with $5.20, while CS has moved to $5.05, convinced the turnaround story is on track.

Those in the middle ground believe the market got a bit ahead of itself in the end, and a pullback is on the cards. The current average target is $4.28, and we closed yesterday at $4.29.

Whoever may prove correct, the one certainty is that a few lawyers will be making some big bucks.

Don’t be Misled By Lihir’s Reserves

By Greg Peel

If Lihir Gold (LHG) is to be considered a valuable gold sector investment then it is not because of the announcement that reserves were 23% more than first thought. Lihir has not suddenly tripped over 23% more gold.

If anything, analysts were underwhelmed with Lihir's announcement, considering the reserve upgrade of 4.4Moz to be either on or below the level expected. It all comes down to "cut-off grades".

Lihir has reduced its cut off grade from 1.25g/t to 0.87 g/t. This means that for every tonne of ore mined, as long as that ore contains 0.87 of a gram of gold, mining is considered economically viable. Imagine having to use that measurement with a pan in a river!

The reason Lihir suddenly has 23% more reserves is that the cut-off reduction equates to such an increase given the known orebody. If the price of gold increases, then it becomes economically viable to mine orebodies with less gold content. And therein lies the rub – Lihir has increased its long term gold price assumption from US$380/oz to US$475/oz.

Given spot gold is currently around US$640/oz, it's hardly an unjustifiable increase. As UBS points out, it brings price assumptions into line with other miners such as Newcrest (NCM) and Oxiana (OXR). But for those investors envisaging a dusty geologist kicking a rock and discovering the mother lode, forget it. This increase was all done on paper at head office.

This doesn't mean the news is bad, of course. Lihir's challenge, though, is how to get it out of the ground so that the benefits can actually be realised. This requires expansion, and that's the focus of broker attention. Analysts consider Lihir a good bet not because it has announced greater reserves – they were expecting that anyway – but because Lihir is well advanced in increasing its production capacity.

In fact, Credit Suisse suggests "the reserve increase should shortly become redundant, with the expansion plan more material as a driver of reserves, production and earnings". It also notes that the most positive aspect of the 23% is that it will drive a reduction in depreciation.

UBS says "we expect to hear more about the proposed capacity expansion to greater than 1Moz and further reserve upgrades which this project should enable". The fourth quarter result is due on January 30.

Macquarie also likes Lihir's reserve growth potential, but throws in the fillip that the company is always rife for takeover. It is, effectively, one of only two world class Australian gold miners (Newcrest – all the other biggies are diversified). In fact, Lihir is ranked in the top ten of Merrill Lynch's global coverage.

Lihir currently holds a 4/4/1 B/H/S ratio in the FNArena database at an average target of $3.31 ($2.90 at yesterday's close). The dissenter is ABN Amro. The analysts were worried about the Ballarat Goldfields (BGF) acquisition, but they haven't piped up again since the reserve announcement.

A lot of the analyst enthusiasm for Lihir can also be credited to a generally bullish view on the forecast price of gold.

Oil Below US$35/bbl?

By Greg Peel

"Oil, copper, gold… they're all coming down and will continue to fall in price. We've seen a huge bull market in commodities, and at the same time, we are now seeing the [US] dollar at its lowest level in terms of its trading partners."

Art Laffer is a long-respected US economist, famous for the "Laffer Curve" which suggests cutting taxes increases tax revenues. This curve now appears in most economic text books. He is also a highly successful money manager.

US publication Investment U's Mark Skousen recently interviewed Laffer, and was provided with the above quote.

Laffer is bullish the US dollar because of the benefit the US trade deficit will receive from a falling oil price. Laffer can see oil below US$35/bbl in the next two years. Unfortunately, Skousen does not press the great man particularly as to why, but it is implicit from Laffer's responses that he is of the "mean reversion" camp which believes commodity prices always return to the mean and will do so again soon. This is in stark contrast to those who see a 20-year commodity bull market.

A stronger US dollar will mean a lower gold price as well, Laffer suggests, and other commodities will follow suit.

This is, however, good news for the US share market. Says Laffer "I've never seen the US stock market so well-positioned as it is now. They're really cheap right now". Laffer believes talk of a US recession is misguided, and that interest rates will remain neutral for the time being. The stock market, he says, has "never been lower in relative terms".

Laffer is neither concerned about the situation in the Middle East. He believes Muslim tyranny will be quashed as oil prices fall lower.

Uranium Market Paralysed By Cameco Update

By Rudi Filapek-Vandyck

For the fifth week in a row the spot U3O8 price has remained stuck at US$72/lb with industry insiders reporting buyers find it increasingly difficult to sign off on any deals as sellers prove to be increasingly unwilling to depart from their uranium oxide ahead of the Cameco market update on February 6 and 7.

The world's number one producer of uranium, which is also the responsible operator of the Cigar Lake project, is scheduled to update the market on its December quarter performance with a media release on February 6 followed by a conference call the day after. Chances are high the company's financial performance will be of secondary relevance only with market watchers and industry participants having turned increasingly nervous about developments at the flooded Cigar Lake project.

Current market speculation is that Cameco is downplaying the problems it has at Cigar Lake. Some expert sources within the industry believe the project could be lost for ever, others believe the company still hasn't been able to stop the flooding. Any announcement in February is bound to be closely scrutinised for any additional insights in the matter as Cigar Lake represents circa 10% of projected additional supply to an already tighter than expected uranium market.

Our colleagues at Stockinterview.com report industry consultant TradeTech has decided to make available a complimentary issue of the weekly sector publication Nuclear Market Review. The initiative is for a limited time only.

To download your free copy of the weekly magazine in pdf format go tohttp://www.stockinterview.com/News/01202007/Uranium-Price-Stall.html (link in fourth paragraph) or go directly to www.uranium.info and follow the download instructions.

Cameco Tries to Respond To Speculation, Share Price Fall

By Rudi Filapek-Vandyck

World number one uranium producer Cameco saw its shares tumble more than 5% on the Toronto Stock Exchange as investors, and investor chat rooms in particular, were frenetically debating the severity of the problems at the company's Cigar Lake project.

As debates heated up, Cameco spokesperson Lyle Krahn sought to allay fears of Cameco having to abandon the project by talking to Bloomberg who quoted him as "speculation that the mine's development would be delayed indefinitely is "absolutely untrue"."

Cameco's intention is to update the market on Cigar Lake by the end of January while Krahn has flagged another media release between now and February 6-7 when the company is scheduled to inform investors about its December quarter performance as well as its operations.

Cameco has thus far stuck to its official line that production at Cigar Lake, expected to produce circa 10% of future annual market supply, is likely to be deferred by one year. Several experts and market watchers believe this is too optimistic though. Deutsche Bank analysts calculated recently that the market has already priced in a delay of two years in the U3O8 (uranium oxide) spot market.

Spot uranium has remained at US$72/lb so far in 2007. This is double the US$35/lb at the start of 2006.

Get Ready To Sell Nickel And Aluminium Stocks?

By Greg Peel

Merrill Lynch analysts warn that the honeymoon may soon be over for both nickel and aluminium stocks.

Turning to nickel first, Merrills suggests the market (and indeed their own analysts) will shortly need to upgrade nickel price forecasts once again, and subsequent mining company earnings. The upcoming reporting season should be a cracker for nickel miners.

However, the risk is that the nickel price will subsequently fall sharply, as it did in mid-2005, due to stainless steel destocking.

Last month Merrills warned that a destock would likely commence in the first quarter of 2007. Since then, the nickel price has risen a further 20% due to a lack of inventory, strikes, and general production problems. US stainless steel supplies now exceed six months, notes Merrills. Before the 2005 destock, supplies exceeded five months. Four months is the norm.

News from Europe is that while stainless steel demand has been strong, inventories are also building and demand growth is beginning to slow. The world's most voracious consumer of nickel – China – has driven the nickel price in 2006 but has now found a new source of lower grade ore out of the Philippines. This indicates the Chinese are definitely price sensitive, says Merrills.

These factors add up to a potentially sharp fall in the nickel price. However, the reality is that actual inventories of nickel metal are still low and declining and there remain supply disruptions and delays. This can offset the stainless steel destock. What to do?

Merrills suggests investors crystallise some gains in nickel stocks. There is a delicate balance, and one wouldn't want to be caught out either way.

In the case of aluminium, the problem is a rise in the price of alumina. Demand for alumina has risen in China, while in the meantime one significant exporter of bauxite – Guinea – has seen its supplies disrupted by a general strike (which has also seen fatalities).

To make matters worse, the supplier of 95% of China's imported bauxite – Indonesia – has moved to ban the export of all unprocessed minerals. This will be on the basis of a general wind-down, over 5-7 years, but it will become an important long term issue for China, Merrill Lynch suggests.

The price of bauxite has been rising, putting pressure on Chinese alumina margins, and this is why refiners have banded together to increase alumina spot prices.

A higher alumina price is negative for the aluminium market, says Merrills, as China is churning out alumina at the low end of the cost curve and is ramping up while the aluminium price is rising. Production should thus continue to grow strongly. At some point it must come to grief. Aluminium inventories are beginning to rise.

Oz First Home Affordability Continues To Decline

By Chris Shaw

Australian housing prices may not be experiencing the boom of a few years ago, but this has not made buying a home any more affordable for the average Australian and first home buyers in particular.

This is reflected by a 5.5% fall in the December quarter in the Housing Industry of Australia (HIA) and Commonwealth Bank's (CBA) First Home Buyer Affordability Index, leaving it 15.5% lower than a year ago.

The index has now turned below 100 for the first time in its 22 year history, four straight quarterly falls leaving it at 97.9.

The HIA/CBA attribute the ongoing weakness to a combination of a 4% rise in the median first home price, which now stands at $376,000, as well as the impact of the three increases in interest rates last year.

The group estimates the monthly repayment on a typical first home mortgage is now $2,332, up 6.3% from the previous figure of $2,194. This has pushed mortgage repayments to 30.7% of total first home buyer income, an increase of 1.7% from September and indicative of how affordability is declining.

While figures suggest the Sydney housing market is lagging the rest of the country it is not clearly reflected in affordability terms, as the group notes there have been falls in both metropolitan and regional areas across Australia when compared to figures from a year ago.

New South Wales recorded a 4.7% fall in the December quarter, worse than the 3.9% fall in Queensland and the 3.8% in Victoria. Western Australia continues to record strong house price increases, with affordability there declining by 7.4%, while South Australia almost matched this with a 7.2% fall. Tasmania recorded a 4.3% decline, while affordability in the ACT fell 6.8%.

RBA On Hold For Now, Say Economists

By Greg Peel

February had been the big call from economists since the November rate rise. As economic data tended to look bad rather than good, economists swayed towards another hike. It would all come down to one thing, they said – the December quarter inflation measures.

It was a surprise to most when the quarterly CPI came out at -0.1%, given a consensus of +0.2%. This takes annual headline CPI growth to 3.3% instead of the 3.6% expected.

What was not much of a surprise were factors that took headline inflation down. We all know bananas are back to normal, and that petrol has finally returned to something less onerous. Petrol provided -12.4% and fruit -5.2%. Also notably down were pharmaceuticals (-5.0) and AV and computers (-2.7%). On the flipside, we know the drought is affecting vegetables (+4.1%), domestic travel has not yet registered fuel levy falls (+6.2%) and that rents are up, although a +1.0% move in the latter surprised some who were expecting more. This might be one to watch for next quarter.

On to the more important core measure of inflation. Both the RBA's "seasonally adjusted" and "trimmed mean" measures rose 0.5% for the quarter, which together are down from 0.7% in the previous quarter. This is the lowest rise since the December quarter of 2003, and leaves the core rate at around 3% for the year.

What's the RBA's comfort zone? 2 to 3%. We are right on the edge.

To that end, economist consensus is now that the RBA will not hike in February, but rather will go on hold to see just how things play out from here.

But you can't keep a good man down, and there's no way TD Securities Stephen "Kooky" Koukalous was going to let the market off that easy.

"There is little doubt that the inflation data will allow the RBA time to assess future inflation pressures in the light of developments in the global economy, housing, the labour market, credit growth and consumer spending. The activity indicators remain firm to strong, which means that it is probably premature to cancel the rate hike call – rather, it has been postponed to a date to be fixed."

Oh how we shall despair when Kooky soon moves on from his role as "spokesman for inflation". Just so we don't all suddenly become complacent:

"It is not clear that the inflation cycle has turned – with a housing shortage, the annual increase in dwelling rent is at a 15 year high. This problem is likely to intensify in 2007 and should see a construction increase. Wages growth is high and skills shortage still prevail and there can be no doubt that global conditions are better than most would have expected a few months ago. A safe call is "rates on hold" for the next few months – but this does not mean that the next move is down. On the contrary, the RBA has a track record of sitting tight for a year to 18 months and it often continues the direction of rate changes after that time. We may be in the very early stages of such a trend."

If Kooky is right, the sad news is that "rates on hold" will be used by a particular party as a banner in an election year. And the next government, of whichever persuasion, will cop reality. That seems a long way off for now.

Apart from all that, economists at GSJB Were have pencilled in a rate cut for the final quarter of 2007.

The Impact Of Petrol Prices

By Greg Peel

The general community has been up in arms recently, screaming at oil companies that they're a great bunch of rip-off merchants for not dropping the petrol price fast enough. No doubt true, but what does a lower petrol price mean at the end of the day?

Macquarie Research notes that we can all watch the crude oil price movements on the nightly news, but it must be remembered that petrol prices at the pump do not fall on a one for one basis with crude. More like four to one, says Macquarie, such that a 10% fall in the crude price will affect a 2.5% fall in petrol. This is because the oil price content of petrol is only about one third, with the rest being made up in distribution costs and taxes. And if the oil price falls, the Aussie dollar tends to fall as well, providing a dampener to petrol price movements.

On that basis, the 13% fall in crude since mid-2006, from about US$79/bbl to US$52/bbl should add back about 0.4% to real incomes. Woohoo, I hear you say.

It's not quite as insignificant as it sounds, Macquarie offers, as the average annual real income growth is around 1.5%, so 0.4% does make a difference. The bad news is that a 0.25% increase in interest rates subtracts about 0.4%, so November has already cancelled out our little windfall.

What the oil price drop does do at least is provide a bit of consumer confidence, says Macquarie. This was already on the up late last year, so it should spill over into early 2007.

Has Oz Inflation Been Beaten?

By Chris Shaw

Immediately following the release of Australia's December quarter CPI data yesterday the bond and currency markets reacted by removing the premium that had been built in based on the expectation the data would be followed by an increase in official interest rates next month.

On Credit Suisse's estimates what had been a 40% chance of a further rate hike quickly fell to a 4% chance, but it raises the question are the markets correct in assuming rates are on hold.

Yes is the majority answer, as most economist have responded to the data by assuming rates are now on hold in coming months, with some, such as GSJB Were, suggesting the next move in rates will be a cut in the final quarter of 2007.

These views reflect the numbers showing headline inflation fell in the December quarter by 0.1%, against market expectations of an increase of around 0.2%. ABN Amro notes the headline number was helped by lower fuel and fruit prices, but of more significance were the measures of underlying inflation, which also rose by less than expected.

This, the broker suggests, indicates lower fuel costs are feeding into the system faster than had been expected, which should allow the Reserve Bank of Australia (RBA) to hold rates steady when it meets next month. The broker also sees potential for the bank to shift to a neutral stance when it releases its "Official Statement on Monetary Policy" in May.

Credit Suisse also sees rates as on hold, but expects the RBA to maintain its tightening bias, as it suggests this would help anchor inflationary expectations. It also sees such an approach as prudent given ongoing tightness in the labour market, which could produce some wage inflation pressure.

ANZ Bank sees the result as indicative underlying inflation has peaked, as it notes the RBA's favoured quarterly measures recorded their lowest outcomes since the March quarter of 2005. Westpac tends to agree, as the bank has dropped its expectation of a rate hike next month in favour of no change over the course of 2007. Both banks agree the risk remains to the upside though given the labour market pressures, the recovery in housing and the impact of the drought.

The dissenting view on the data is offered by Stephen Koukoulas of TD Securities, who argues the CPI outcome shows inflationary pressures are actually intensifying rather than weakening.

In his view the low outcome was the result of some one-off factors such as lower fuel prices and the China effect, where prices are being kept low as China exports deflation through its cheap manufacturing sector.

He argues a look at the changes in the components of the CPI Index shows signs inflation is trending up when those sectors influenced by China and the manufacturing effect are taken into consideration.

As an example, around 17% of the CPI index is made up of clothing and footwear; furniture and furnishings; household appliances; audio, visual and computing; sport and recreation equipment; toys and games and motor vehicles. Of these, all but motor vehicles and furniture and furnishings fell in the quarter from their year ago levels, but if these sectors were excluded from the CPI calculation the result would have been a 4.1% annualised increase in the quarter rather than the 3.3% rise recorded.

Taking out fuel prices the CPI would have actually risen by 4.5%, which is higher than the 4.2% outcome recorded in June last year. As a result, Koukoulas has not been swayed from his view a further increase in rates is likely in coming months, as it would only take a slowing of the China effect or a jump in fuel prices to make the outcome very different from what was announced yesterday.

Rudi On Thursday

'Passionate about financial news' it says on our business cards and on our website, but FNArena is -of course- much more than simply a financial news service.

We've done some thinking over the Christmas holiday break and come up with a way to summarise the 'essence' of our project, or should I use the French expression 'raison d'etre'? (sounds so much more interesting, doesn't it?).

We're still passionate about financial news, and we'll probably always remain so, but from now on we will start presenting ourselves as 'data, news and analysis', which I think provides the outside world with a much better picture of what we are, what we do and what we want to achieve.

It is our view that these three core elements should be integrated as closely and as deeply as possible and we are working hard towards achieving this.

FNArena is largely built around the premise that nobody -no matter how smart- has all the answers or is always right. So we've come up with the idea of tapping into the world of expert opinions and views on a regular basis to see if there are any new and interesting ideas. If we spot one, we report it. It's a pretty straightforward process.

'News' can also mean we found something before anyone else did. 2007 is still young but we already triggered a first speeding ticket from the ASX (not that that is by any means our goal).

And 'news' is, of course, our daily Australian Broker Call Report wherein we amalgamate all our stories on expert views, changes in opinions and recommendations, calculations of shares valuations and targets and estimates for future earnings and dividends.

On top of all this we conduct our own analyses. Since we operate very closely to the world of expert views and opinions, we often spot changes in market sentiment in a relatively early stage. Each market has its gaps and hiatuses and so does the Australian market. We like to think that our own analyses have been able to fill some of these gaps in the past.

In addition, we are developing and building our own indicators and applications which we believe make the market more transparent. These 'tools' provide us with answers to questions such as which stocks are enjoying a positive market bias? Which ones are in the sin bin? For which stocks is sentiment shifting? And what's the projected upside behind the Buy ratings?

We use these indicators and applications for our own analysis, but we make them also available to our subscribers. At FNArena we don't believe in a one way relationship with our readers and subscribers. We like to think we're serving an audience of independent investors -small and large- who dare to make up their own mind.

We see our role as providing these investors with information, insights and tools that assist them while making investment decisions. The one thing we don't do is giving investment advice. If we would it would contradict all of the above.

It is within this framework that I have the pleasure this week of presenting a view which has been largely absent in the financial markets over the past three-four years. However, with share prices of the likes of BHP Billiton (BHP) and Rio Tinto (RIO) seriously lagging the rest of the market, plus the heavy correction on commodities markets in January, the view is unmistakably resurfacing across the globe.

We've dubbed it the 'theory of the marginal cost of production'. We now pass on the baton to the freethinkers at GaveKal:

"In almost every single meeting, clients would tell us: "Hold on: you're telling me that global growth in 2007 will remain decent, that Asia will have a massive infrastructure boom, that Chinese real estate is going to go gangbusters and yet, at the same time, you tell me that I should not own commodities? This just doesn't add up".

"Given that we fielded this question in almost every meeting, our answer became well-rehearsed: "Imagine that we are in 1946 and we describe to you a world of air-conditioners, neon lights, electrical appliances, computers, jet airplanes, pleasure yachts, three car garages and the SUVs that go in them…

"Imagine we also show you how the world will grow from a total population of 1.5bn people to 6.5bn people… Imagine then that, in our great foresight, we see how central banks will lose the plots, allow monetary aggregates to explode, move everyone to fiat-money, etc… Then you and I would have probably agreed that the best thing to own would have been commodities. In fact, we probably would have wanted to own nothing but commodities!"

"And, of course, adjusted for inflation, commodities would have been one of the worst investments we could have made."

[…]

"So why, despite the great fundamental environment, did commodities fare so poorly? The answer is, we believe, that commodities over the long-term tend to return to their marginal cost of production. And that thanks to technology, freer trade, lack of full-scale wars, etc… the marginal cost of production of almost all commodities has spent the past fifty years falling.

"Which leaves us with an important question. Today, commodity prices stand far above their cost of production (allowing producers to capture an inordinate rent). Can this last? Bears (like us) argue that it can't; it never has in the past, and it won't start now. Bulls (like many of our clients) argue that, this time, and contrary to recent history, the marginal cost of production will rise (because of qualified labour shortages, supply constraints, environmental laws…). This is an interesting debate, whose answer will determine whether we indeed have started a "commodity super-cycle" or another typical "boom-bust" cycle."

FNArena is making a lot of progress into the new year, even though most of it would have happened unnoticed for the majority of our readers. Our (more) Sources of Wisdom section now contains all three main providers of internet video content in Australia (we believe this is rather uncommon).

Following the big success of 'Investing in the great uranium bull market', we have been asked to contribute to another book which should be released later this year. Our stories can now be accessed on Dow Jones's Factiva platform, which we regard as a huge compliment.

And two of our team members became fathers this month, both for the very first time.

(There's more, but let's keep that for another time).

Till next week!

Your happy as ever editor,

Rudi Filapek-Vandyck (steadfastly supported by the Fab Three: Greg, Chris and Terry)

Currency And Bond Market Trade Ideas, By TD Securities

By Chris Shaw

TD Securities has examined potential trading ideas for 2007 in the foreign exchange and fixed interest markets around the world, in the process uncovering a few ideas of relevance for investors in Australia and New Zealand.

Two ideas are currency plays, with the broker suggesting buying the Australian dollar against its Canadian counterpart and buying the New Zealand dollar against the greenback.

Its positive view on the Aussie dollar is while both it and Canada are commodity-based economies they are at two different stages of the cycle, as while Canadian commodities appear to have levelled out those where Australia are strong have remained well supported.

At the same time the broker's view is the Australian economic outlook remains strong, as the economy is still generating job growth and persistent pricing pressures, meaning there remains the risk of a further tightening in interest rates in the coming months even after yesterday's benign CPI outcome. (TD Securities' Stephen Koukoulas view is not widely shared these days we must add to this).

In contrast, the Canadian economy appears to be entering a period of sub-trend growth, so the interest rate spread of around 2% between the two countries (Australia's benchmark rate is 6.25%, Canada's is 4.25%) favours further support for the Australian dollar.

The broker sees potential for the Australian dollar to achieve parity against the Canadian dollar, so it recommends buying at current levels of around 92c, with a target of 98c. There is some risk in the trade, particularly given Australia has a current account deficit and Canada is running twin surpluses, but in its view the balance is in favour of the Aussie currency moving higher.

Similarly TD Securities sees potential for the New Zealand dollar to gain on the US dollar, as the current New Zealand cash rate of 7.25% means its running yield is at or above that on offer in many emerging markets, while at the same time the economy appears fundamentally sound.

Also working in favour of the Kiwi dollar are signs the export and current account issues that had been impacting are now being addressed, while the broker also sees solid major trading partner growth in coming months. With the employment and housing markets also strong, its points to further support for the currency in its view.

Again there is some risk, this time from the Reserve Bank of New Zealand cutting rates, but the broker suggests such an outcome is unlikely before late this year at the earliest. It suggests buying the Kiwi dollar at current levels of around 69c, with a target of 74c.

As mentioned, Australia's CPI yesterday was weaker than expected, removing much of the market's expectations of higher interest rates in coming months. Despite this, the broker's Australian strategist Stephen Koukoulas continues to push the case for further upside risk to Australian interest rates, especially as housing is rebounding, the labour market remains tight and credit growth is accelerating.

He expects the recent inventory rundown to be reversed in coming months and for consumer demand to continue to heat up, both of which should result in a stronger GDP growth outcome. As an example, he suggests sentiment is currently consistent with household consumption growth of more than 4%, which would provide a boost to overall growth.

Given this, Koukoulas expects further yield curve inversion in the Australian market, so he is targeting a move in 2-year/10-year interest rate differentials from the current -20 basis points to as much as -45 basis points.

Equities Remain Fashion Du Jour In 2007

By Rudi Filapek-Vandyck

Morgan Stanley US strategists Henry H. McVey and David McNellis have stuck to their positive recommendation regarding US equities for 2007. In a recent update on matters, the duo remarks that many investors think remaining overweight equities seems crazy given this is the second-longest-running bull market without a 10% correction.

The answer by McVey and McNellis (Mac and Mac) is this may be true, but so far absolute returns for this bull market are still meager while the potential for expansion of share price multiples remains nothing less than compelling.

That is not to say a potential market correction in the order of 10%, as suggested by some commentators, is completely out of the question. Mac and Mac believe a pullback anytime soon is very well possible given the S&P500 index has recorded gains in 11 out of the last 12 months.

The duo believes US equities are about to make a transition to what they consider as phase 3 of the bull market with phase 1 characterised by "re-equification via deleveraging" and Phase 2 by rising return on equity (ROE) amid strong earnings growth.

Such a transformation in itself could well trigger the necessary pullback, the strategists suggest. In phase 3 an increasing PE ratio for the market as a whole will act as the red flag (if everything goes according to plan).

GaveKal too is bullish on US equities, especially large caps. And so are the majority of hedge funds, real money institutions and proprietary trading desks if we can take guidance from Goldman Sachs's Annual Macro Trading Round Table which this year took place in Miami.

According to a brief report on the event which was passed on to us, one of the key standout themes of the event was a widely held bullish view on global equities, particularly Asian shares, and including the Japanese market.

Apparently, views on commodities remain mixed, but not so for soft commodities with grains and cotton specifically mentioned as this year's potential champions. Other stand out consensus views at the gathering proved a bit more exotic with attendants preferring Turkish T-bills and Turkish local currency assets in general, the Norsk Krona (NOK) while sharng a bearish sentiment for the Japanese Yen.

One of the Goldman Sachs attendees gave a presentation showing global equities still looked attractive, relative to other assets, and that equity valuations in emerging markets in particular are not looking stretched.

According to the presentation investors may have to get used to the low volatility environment of late and this in itself could encourage investors to "ride the risk curve in equities". This would, again, be a positive for equities in the year ahead.

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