



Australia's Boutique  
Resource Investment Firm

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The Australian Resources Outlook  
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Barry Dawes  
B Sc FAusIMM(CP) MSDIA MSEG  
Managing Director  
Martin Place Securities

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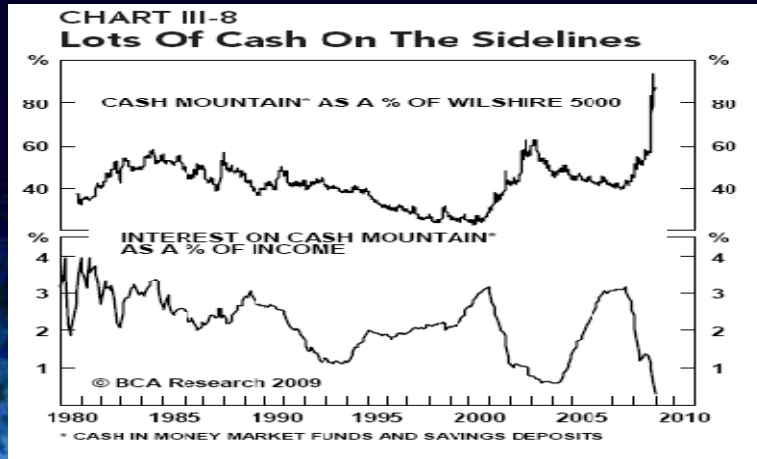
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## Why markets will run further

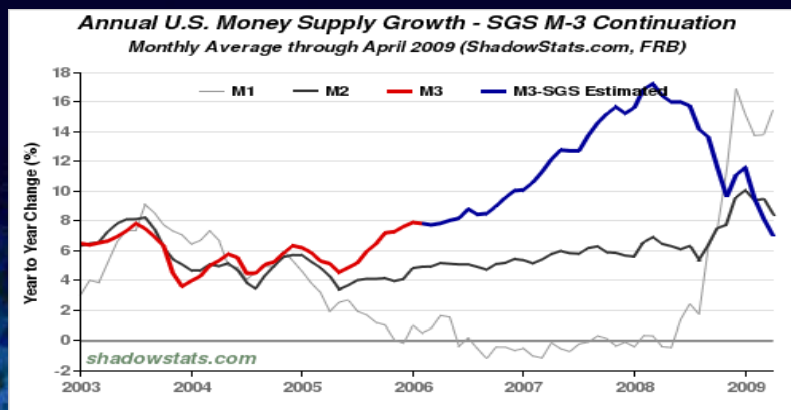
- Global monetary and fiscal stimulus
- Large low interest rate cash deposits
- Reversal of global destocking
- Breakdown of US\$ and T bond markets
- Precious metals rising
- Commodities still have supply issues
- Most investors are underweight equities

# Drivers of Equity Markets



BCA 2009

# US Money Supply Growth



Source: Shadowstats

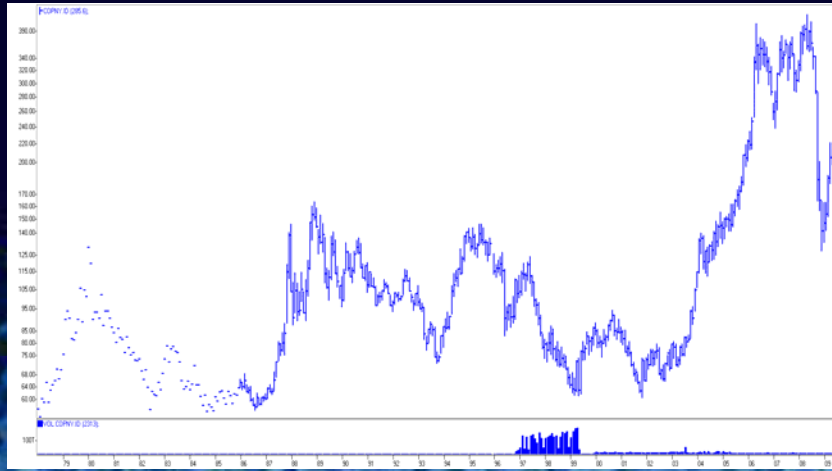
## Global stimulus working

- Commodities up from Nov 2008 low
- Resources equities and China strong
- Equity markets now responding
- Inventories being rebuilt
- Unemployment growing but lagging
- Bond markets breaking down
- Major risk of inflation

## Long Term Oil Price (US\$/bbl)

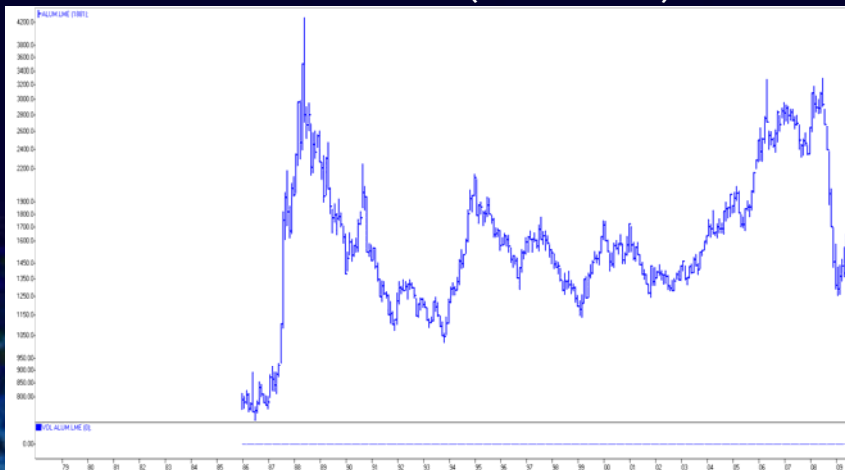
Source: IRESS

## Copper (US\$/lb Comex)



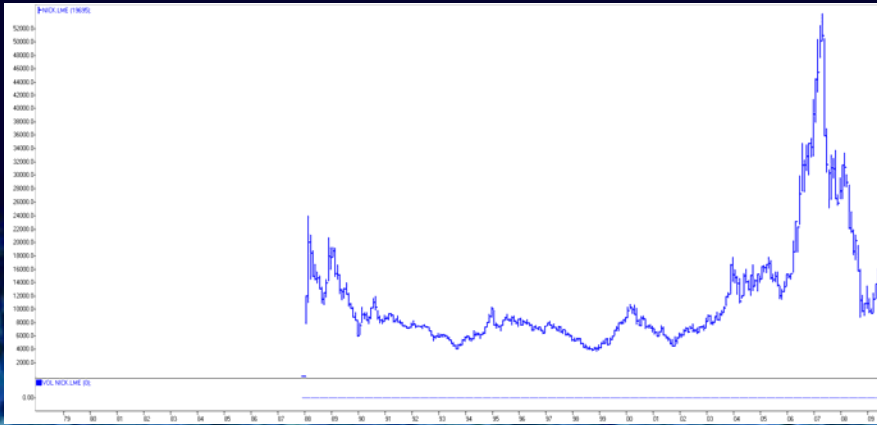
Source: IRESS

## Aluminium (US\$/t LME)



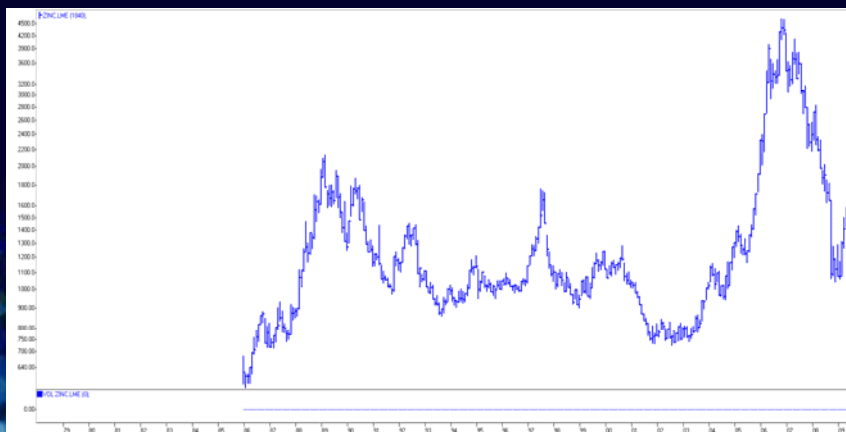
Source: IRESS

# Nickel (US\$/t LME)



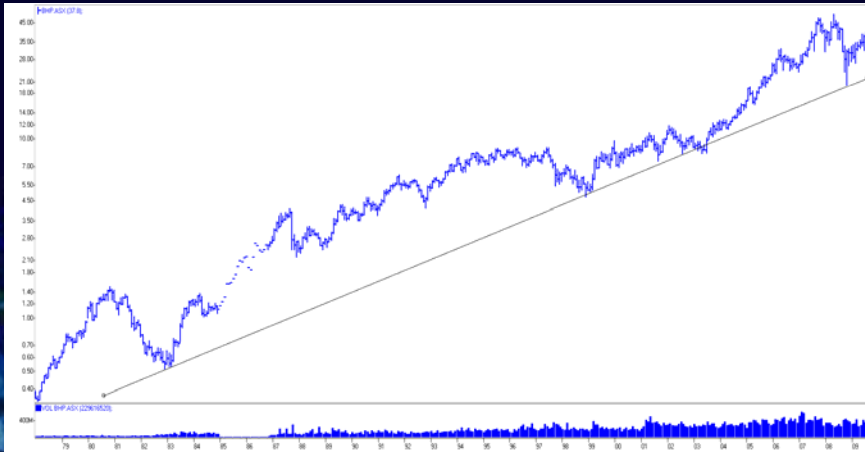
Source: IRESS

# Zinc (US\$/t LME)



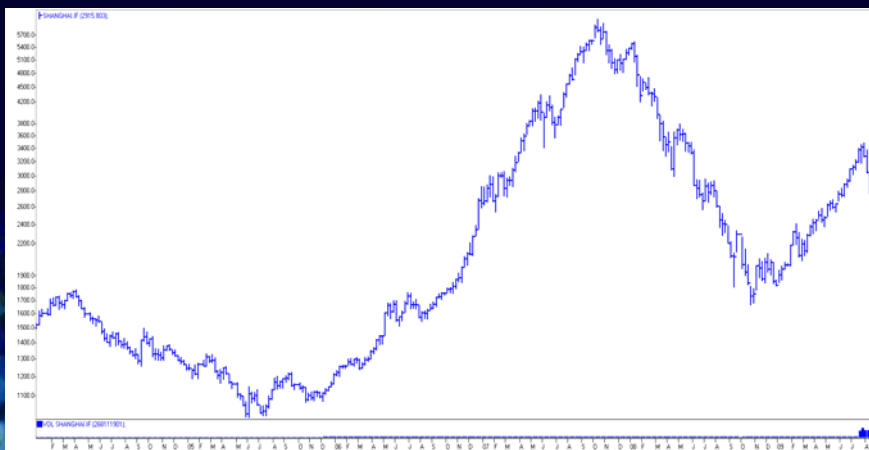
Source: IRESS

# BHP – Resources Sector Proxy



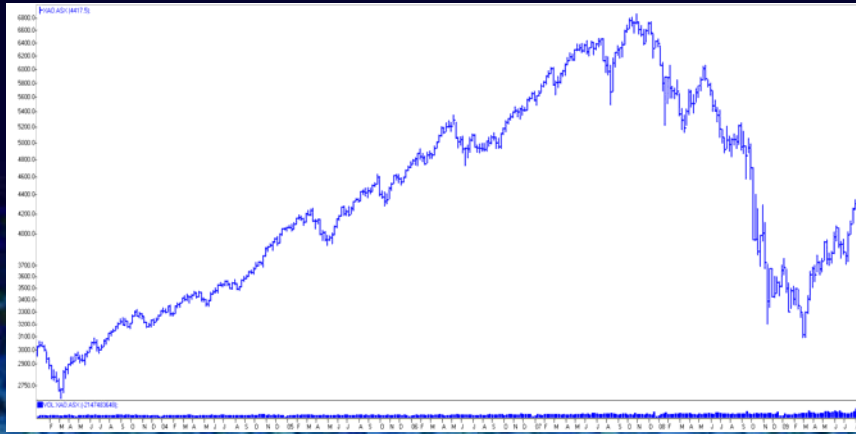
Source: IRESS

# Shanghai Index



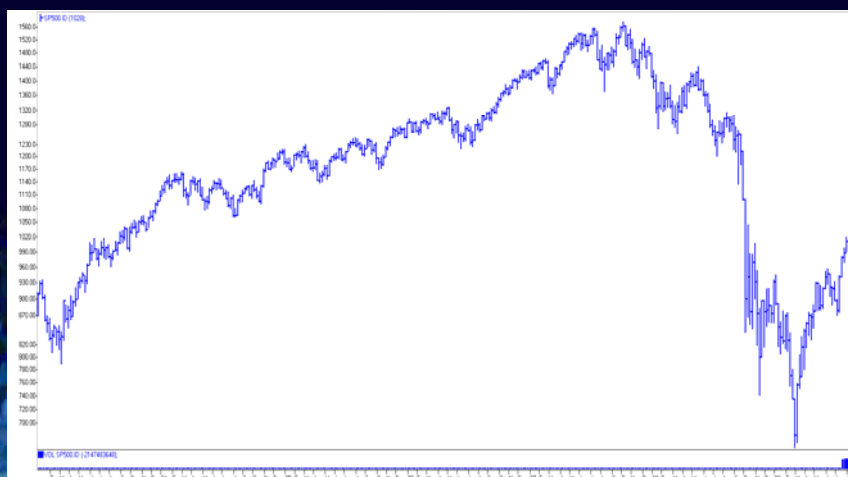
Source: IRESS

# All Ordinaries Index



Source: IRESS

# SP500 Index



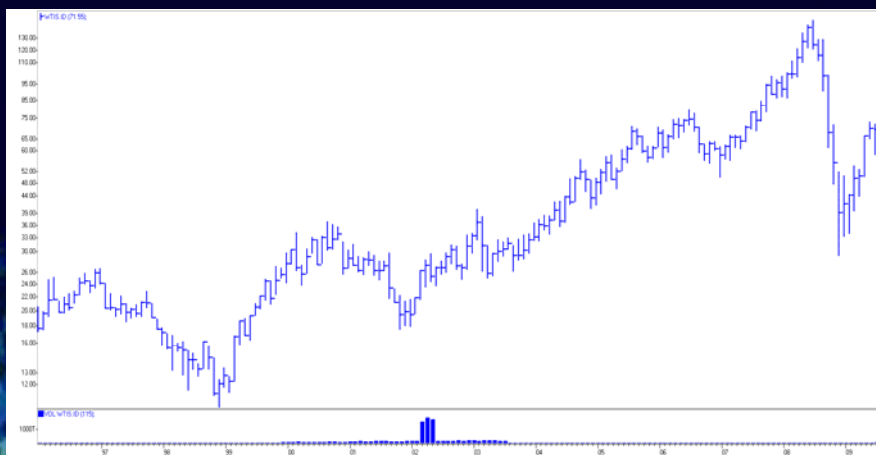
Source: IRESS

# US Equity Market



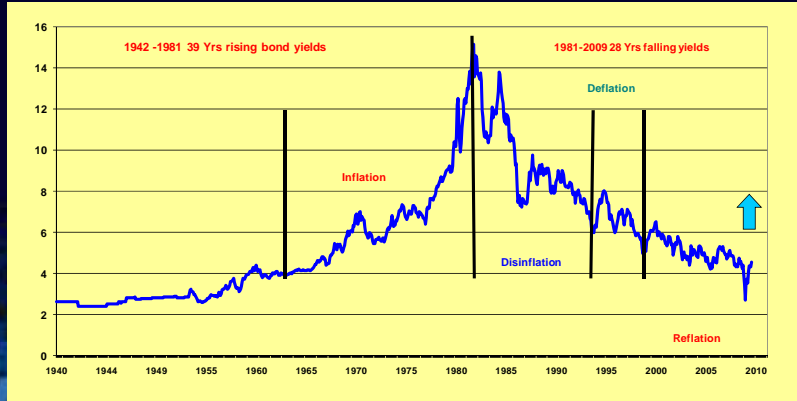
Source: Gold Eagle

# Long Term Oil Price (US\$/bb)



Source: IRESS

# The Long View on US T-Bond Yields



Source: IRESS MPS

# US 30 Year Treasury Bond

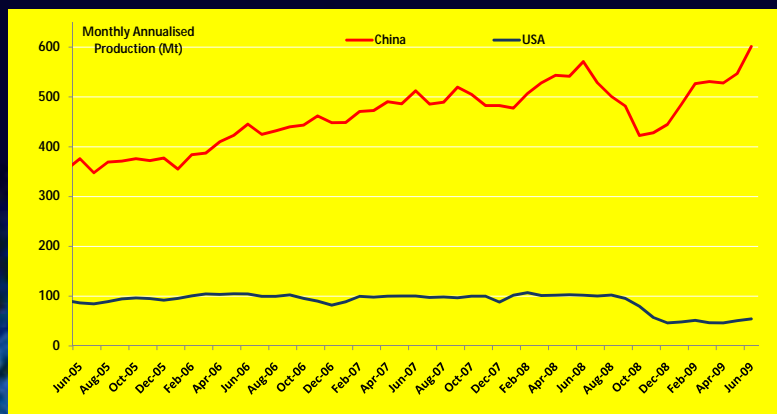


Source: Stockcharts

## China leading the way

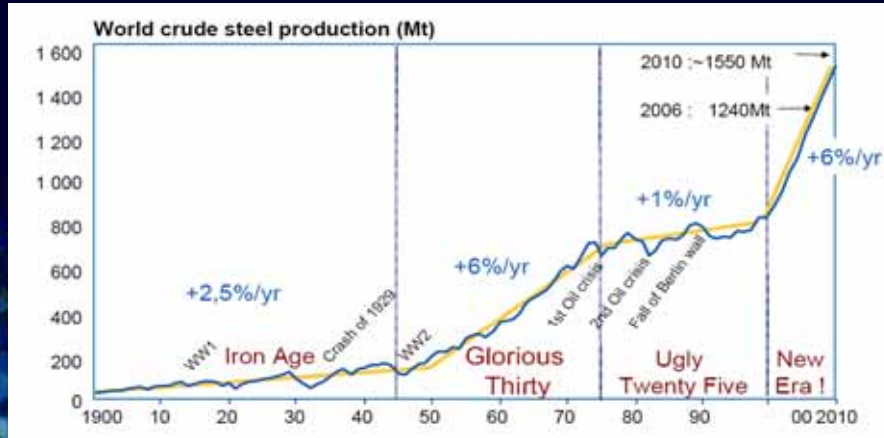
- Major Fiscal stimulus
- Basic industries still growing
- Crude steel production still rising
- Restocking of major commodities
- Aggressively acquiring global resources
- Gold reserves 1054t (up 75% since 2003)

## US and China Crude Steel



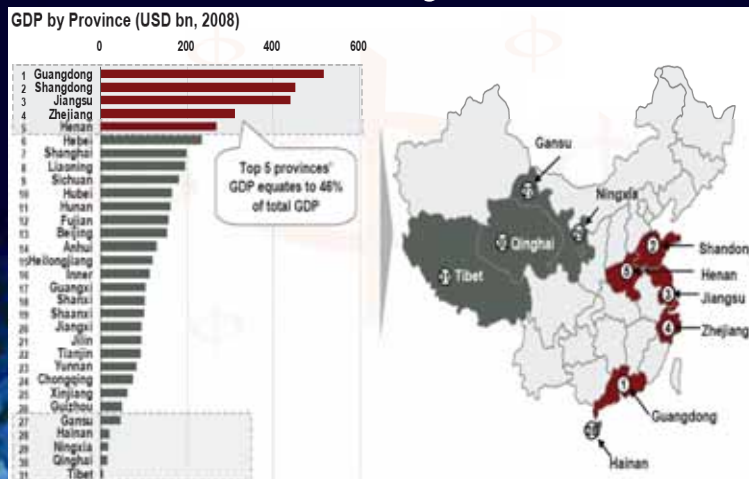
Source: IISI

# World Crude Steel (mmt)



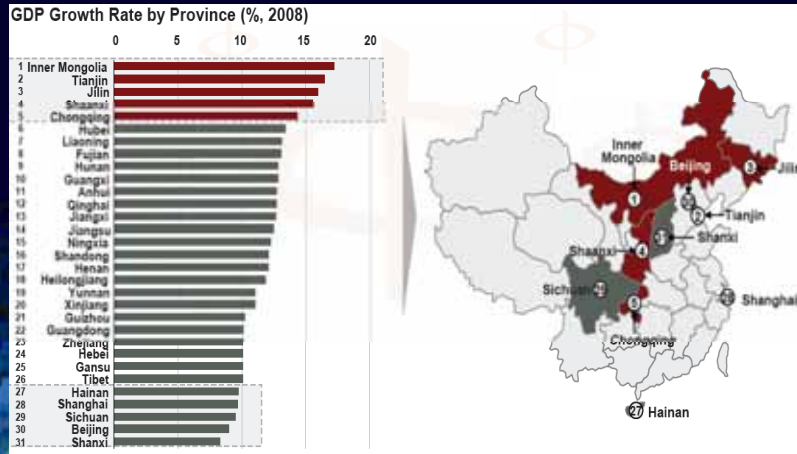
Source: Laplace Conseil

# China GDP by Province



Source: Beijing Axis

# China GDP Growth by Province



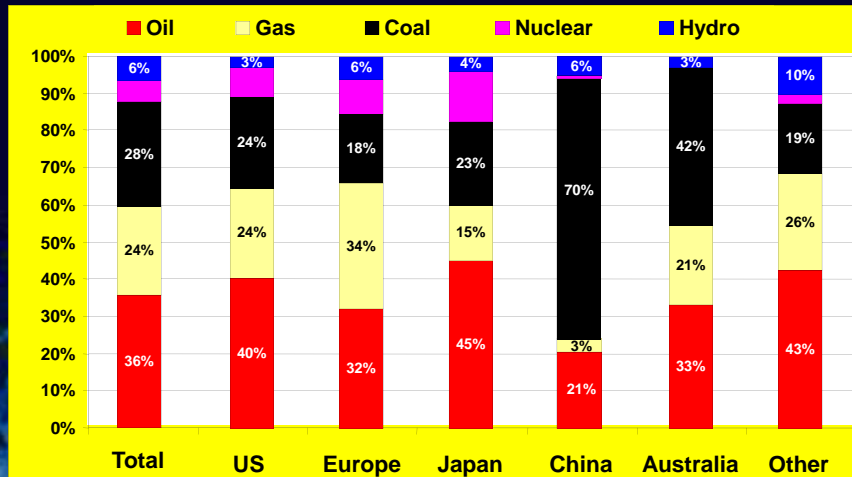
Source: Beijing Axis

# China Exports



Source: Beijing Axis

## World Energy Consumption by Fuel Type

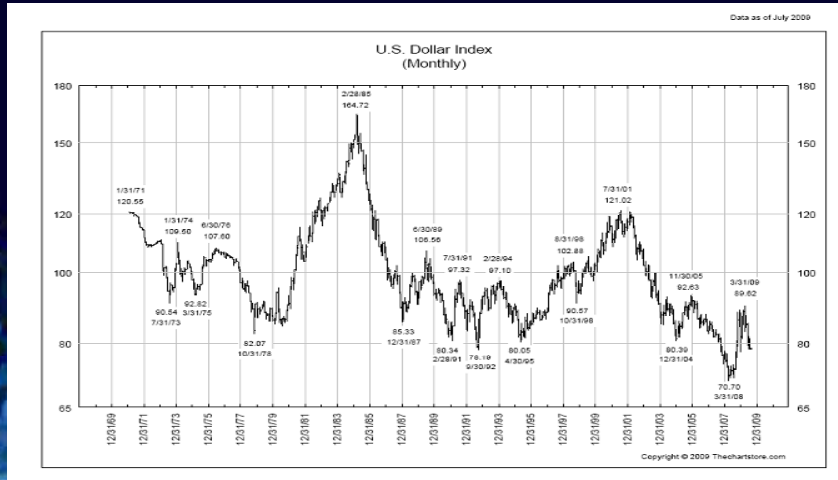


Source: BP Data 2007

## Currency turmoil ahead

- US\$ and GBP breaking down
- Chinese Yuan to rise
- Japan to encounter major debt problems
- A\$ to rally above parity against US\$
- A\$ to make new 20 year highs against GBP
- Commodity currencies to rally
- Gold and silver best currency

# Long Term US\$ Index



Source: The Chartstore

# US\$ Index



Source: Stock Charts

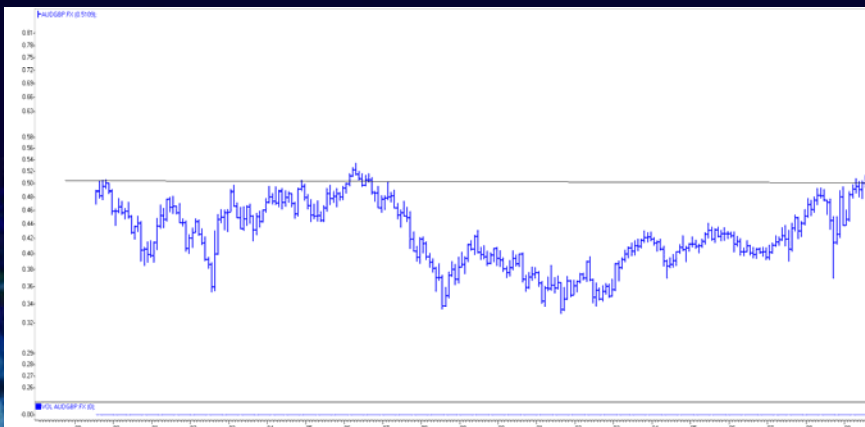


# A\$ vs US\$ 1980 - 2009



Source: IRESS

# A\$ vs GBP 1990 - 2009

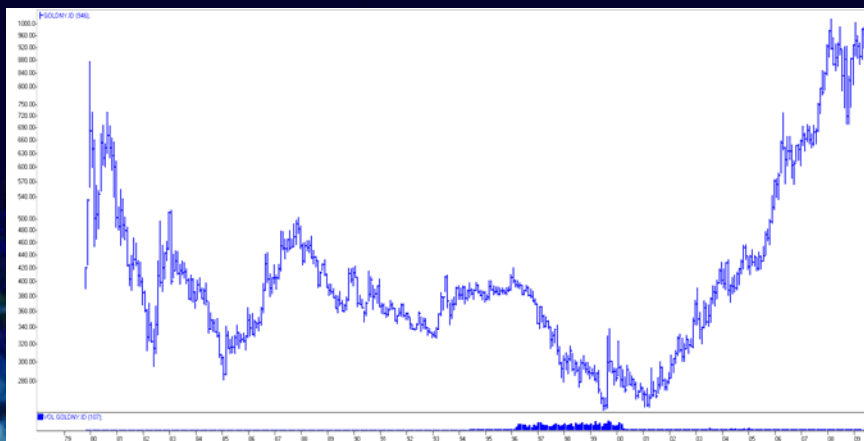


Source: IRESS

## Gold Outlook Dominating

- Gold price drives Australian Resources
- Gold Sector upturn underway
- Mine supply falling while demand soars
- Worldwide monetary stimulus accelerating
- Significant upside in precious metals

## US\$ Gold Price (US\$/oz)



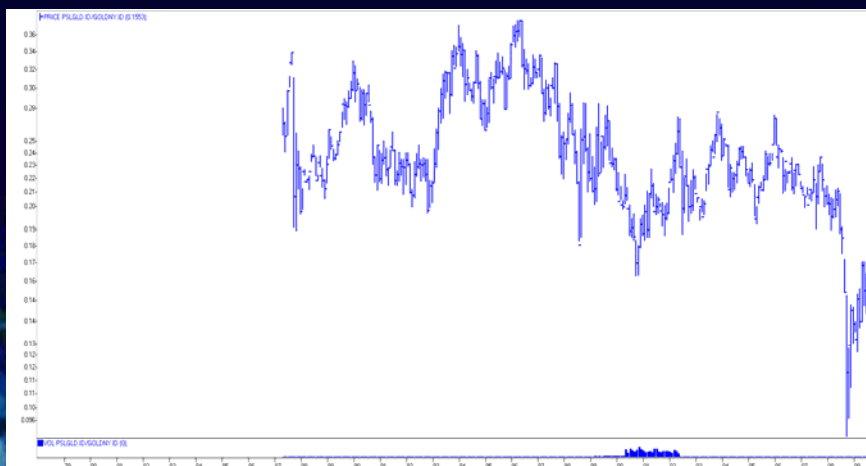
Source: IRESS

# US Gold Index (XAU)



Source: IRESS

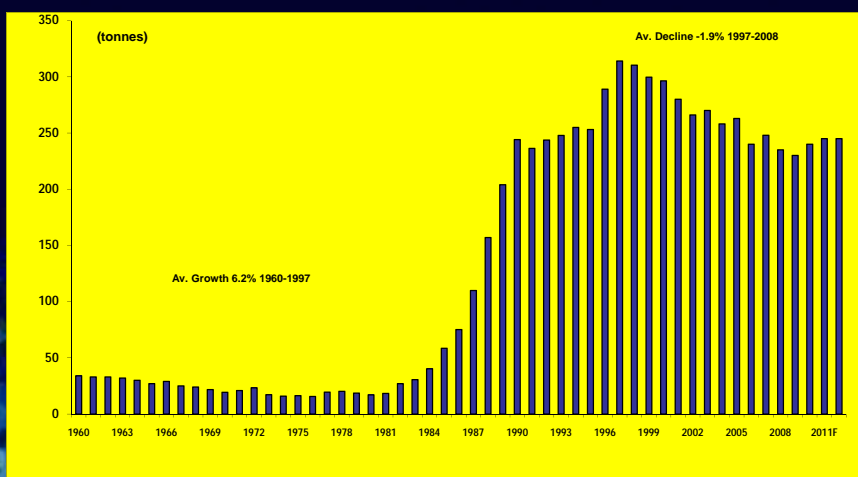
# XAU vs US Gold Price



## Australian Gold Industry

- Significantly rationalised in past decade
- Production upturn expected from 2009
- Exploration funding to expand
- Sector PER<8x FY10 EPS
- Asset values still severely discounted
- Excellent long term investment entry level

## Australian Gold Production History



Source: ABARE

## Australian Exploration Expenditures

### 15 Private mineral exploration expenditure Australia

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
<b>At current prices</b>						
<b>Energy</b>						
Petroleum						
onshore	191.3	230.5	270.1	355.8	498.2	493.8
offshore	803.8	713.6	774.6	906.1	1 727.3	2 541.1
total	995.1	944.1	1 044.7	1 261.9	2 225.5	3 034.9
Coal	77.8	81.5	126.8	166.4	193.2	234.8
Uranium	6.9	10.6	20.7	56.1	114.1	231.5
<b>Total</b>	<b>1 079.8</b>	<b>1 036.2</b>	<b>1 192.2</b>	<b>1 484.4</b>	<b>2 532.6</b>	<b>3 501.2</b>
<b>Metals and other minerals <sup>a</sup></b>						
Gold	378.4	397.1	391.7	399.6	455.9	592.6
Iron ore	44.5	63.7	137.9	161.3	285.4	449.8
Base metals, silver and cobalt <sup>b</sup>	142.4	151.9	261.3	355.7	555.0	763.2
Mineral sands	27.3	23.6	27.6	29.2	37.3	37.0
Diamonds	29.9	25.9	23.7	22.6	26.9	21.7
Other	25.6	32.2	38.7	48.8	46.6	1 110.8
<b>Total metals and other minerals <sup>a</sup></b>	<b>648.1</b>	<b>694.6</b>	<b>880.9</b>	<b>1 018.2</b>	<b>1 407.3</b>	<b>1 995.1</b>
<b>Total expenditure</b>	<b>1 727.9</b>	<b>1 730.8</b>	<b>2 073.1</b>	<b>2 502.6</b>	<b>3 940.1</b>	<b>5 496.3</b>

<sup>a</sup> Uranium is included with energy. <sup>b</sup> Base metals include copper, lead, nickel and zinc.  
Sources: Australian Bureau of Statistics; ABARE.

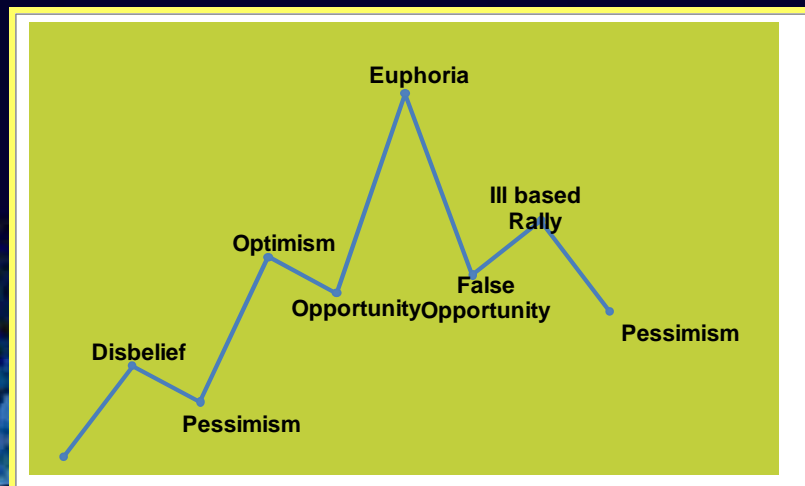
## Australian Gold Stocks

- Adopt portfolio approach
- Choose leaders
- Overweight growth opportunities
- Seek out established resources
- Emphasize management in selection

## Conclusions

- Gold suggests inflation ahead
- World monetary inflationary pressures continuing
- Resources stocks heavily discounted
- Energy prices to remain firm on supply worries
- The 'Optimism' leg now underway?

## Idealised Elliot Wave Market Psychology



Source: MPS

## Portfolio Recommendations

- Key leaders – BHP WPL NCM LGL
- Overweight Gold Sector
- Mid caps IGO KZL MCR
- Iron Ore FMG GRR BCI FMS
- Energy stocks well placed
  - Oil and Gas KAR AOE CTP POG NGE
  - Uraniums ERA PDN MTN AGS
- Explorers/Developers
  - Copper CDU CLY
  - Exotics ORE ARU LYC ALK

## Gold Sector Recommendations

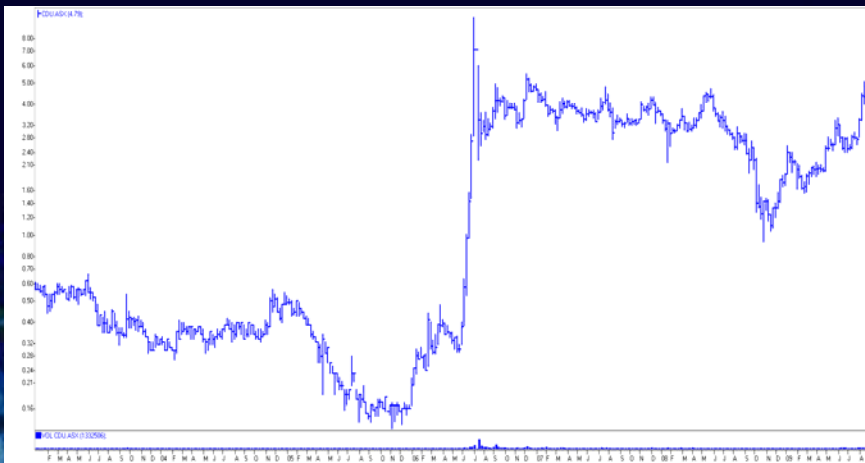
- Key leaders – NCM LGL
- Mid caps KCN AVO TRY NGF
- Small producers
  - SLR MML
- Explorers/Developers
  - ALK IGR GOA

# Hill End Gold



Source: IRESS

# Cudeco



Source: IRESS

# A\$ vs XAU

