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Economic Update

June 2010

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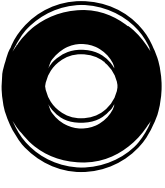
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Today



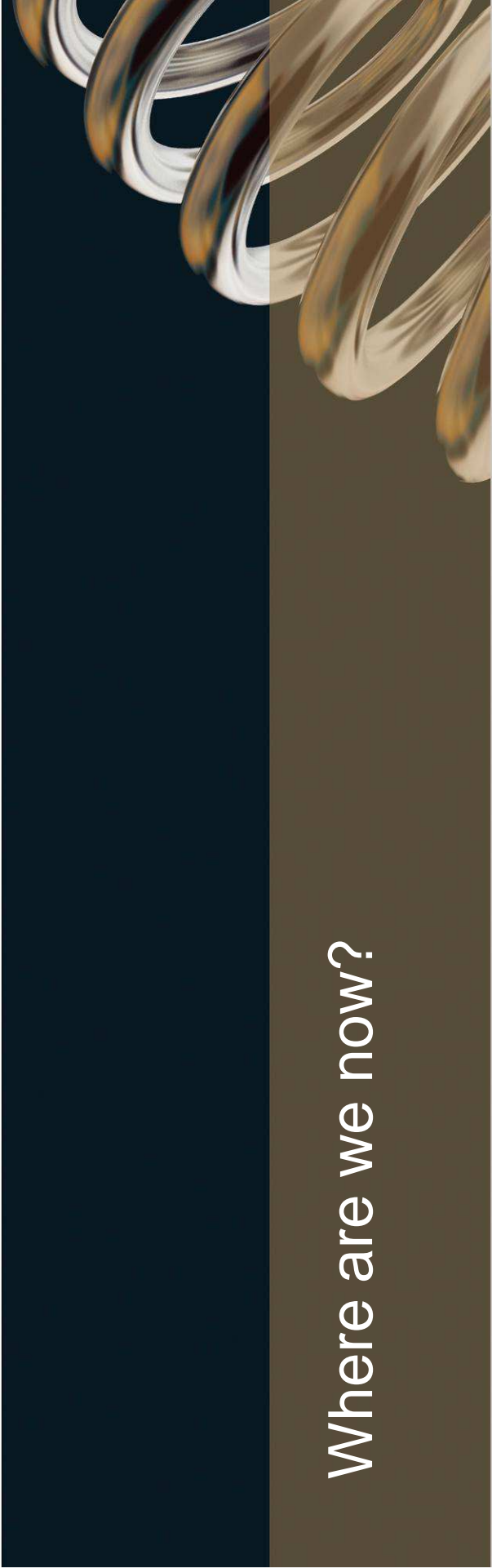
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- > Where are we now?
- > Where did we come from?
- > Where might we go?



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Where are we now?



The volatile month of May



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- > European public debt concerns – PIGS
- > Worries about Chinese tightening – curbing property boom
- > Concerns inter bank lending may curtail
- > Planned Resource Super Profits Tax has magnified the impact on the Australian \$ and shares

“It’s too early to say if the falls are over, but we see it as part of a correction – albeit a severe one – rather than the start of a new bear market.”

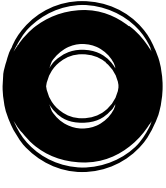
Shane Oliver, AMP Capital Investors, 18 – 21 May 2010

The volatile month of May



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- > Some good news with interest rates left on hold
- > Likely to reflect a view that the RBA has reached more 'normal' levels (4.5% - 5% cash rate) as opposed to emergency levels (3% cash rate)
- > Leaves the RBA with room to move should the economy contract quickly due to domestic and international forces
- > Debt still considered relatively cheap

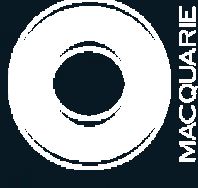


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Where did we come from?



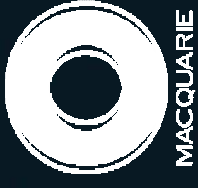
Memories of the GFC



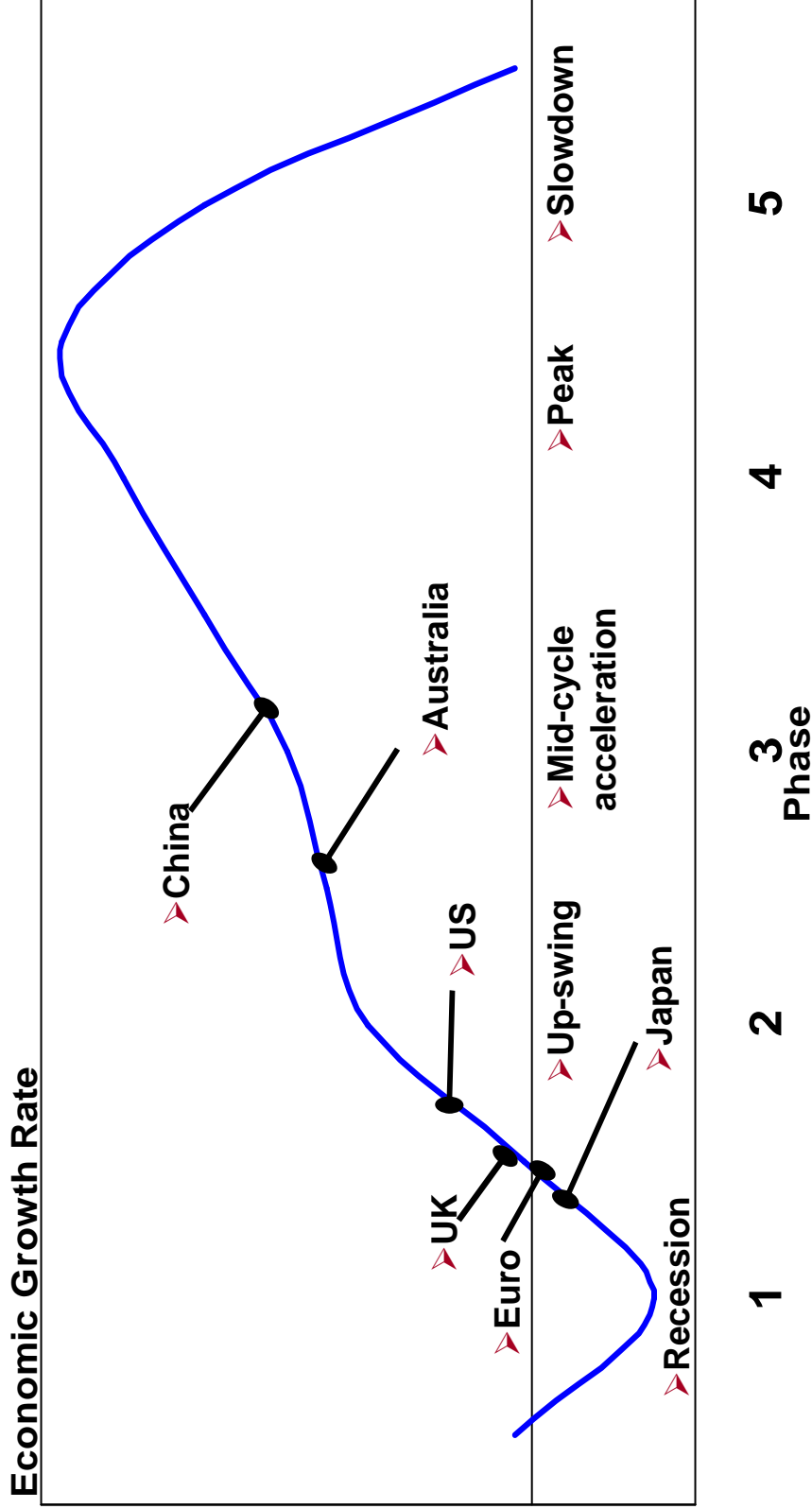
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- > ASX 200 low point in March 2009
- > Unprecedented level of government intervention in markets
- > Company bail outs
- > Stimulus packages – rapid response
- > Massive drop in confidence at all levels on a global scale

The business cycle is now in recovery



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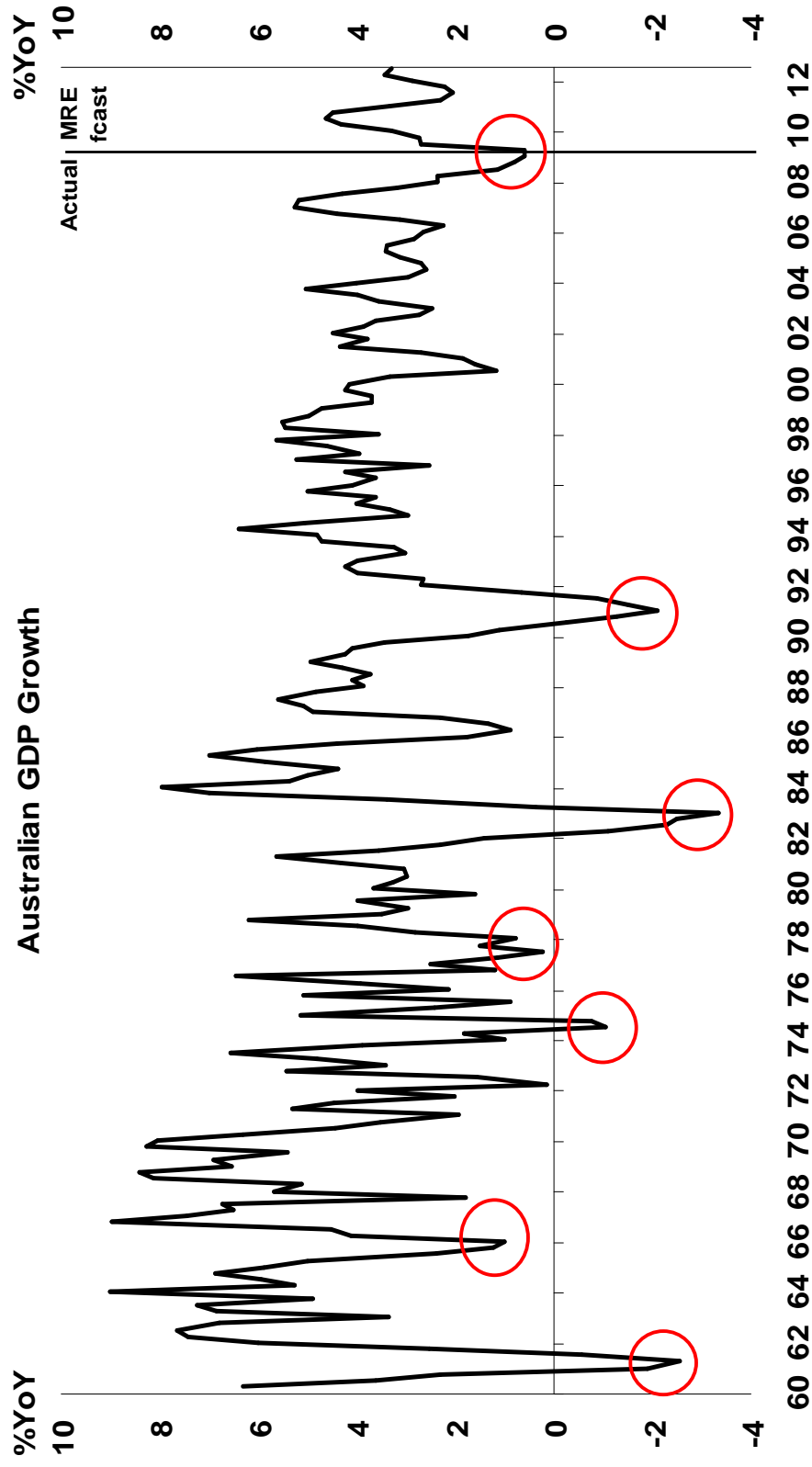


Source: Macquarie Research, March 2010

Australian economic downturn was shallow and growth is recovering with a “V” shape



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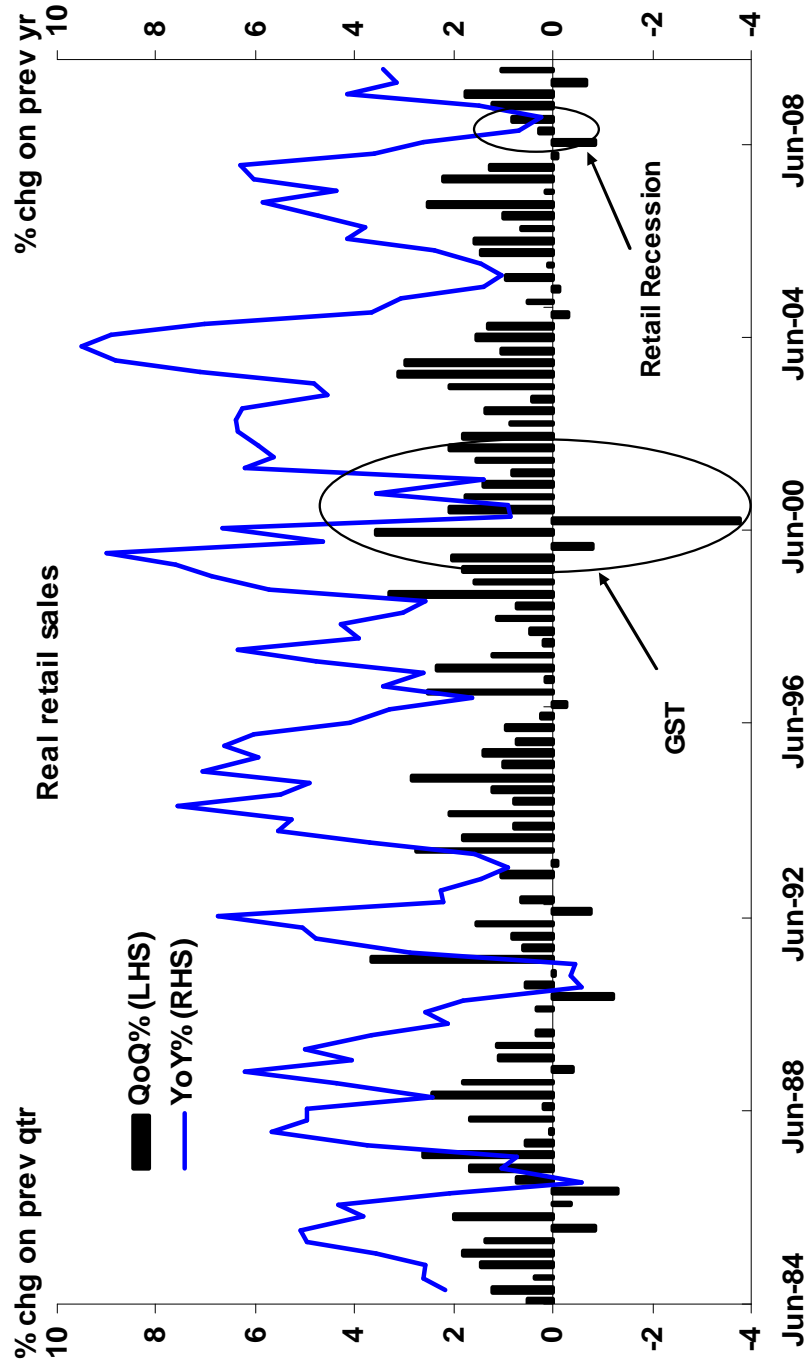


➤ Source: ABS, Macquarie Research, March 2010

Retail spending has picked up supported by still strong consumer confidence



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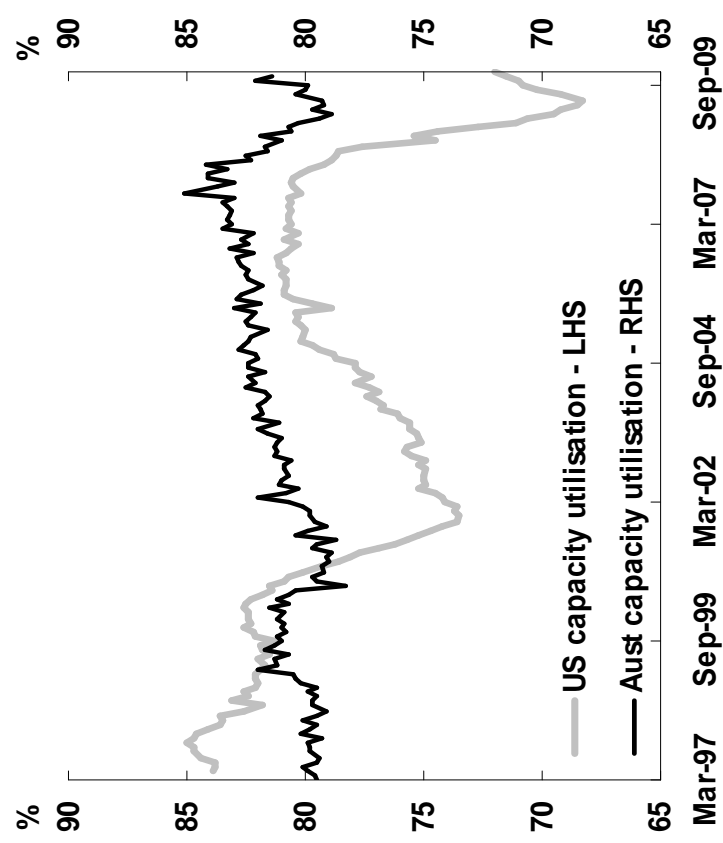
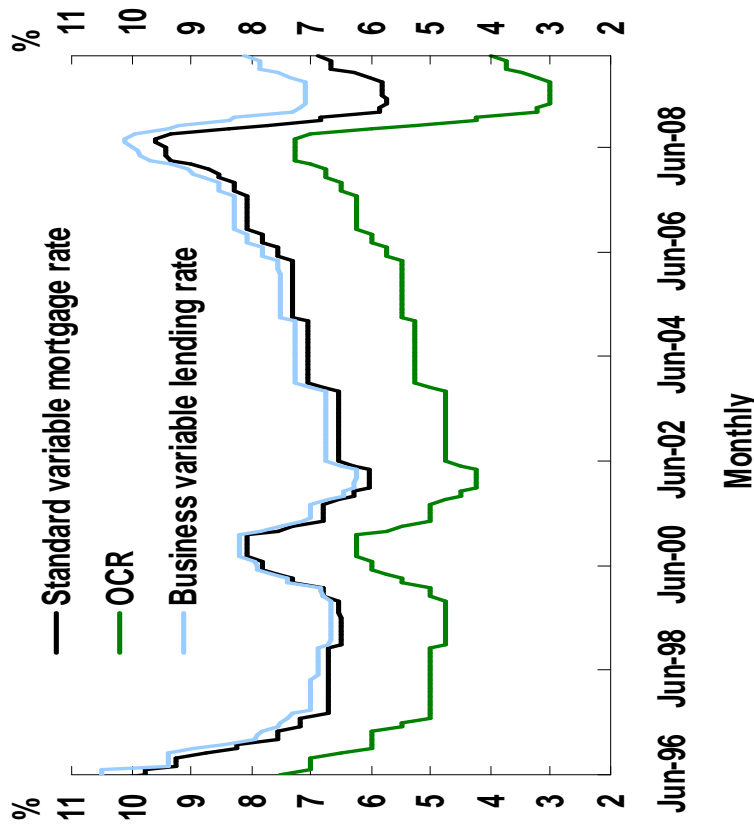


➤ Source: ABS, Macquarie Research, March 2010

...the “emergency” interest rate setting is brought wound back quickly to reflect stronger



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➤ Source: RBA, Cannex, Macquarie Research, March 2010



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Where might we go?



Correction, not a new bear



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- > Australian shares have fallen 16% since the recovery peak in April
- > AU\$ is down 13% since its recent peak of US\$0.9351
- > Still too early to say that shares and growth assets have bottomed
- > Investors remain pretty skittish still showing high levels of 'investment fear'
- > Increased levels of share market volatility – over the month the share market had 13 out of 21 days where the market moved by more than 1%

Correction, not a new bear



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- > Global leading indicators point to a continuation of the global economic recovery ahead
- > Recent profit reporting season augurs well for profit growth going forward
- > Global monetary policy is easing and not consistent with the start of a bear market
- > With China property market starting to ease likely that Chinese authorities will be starting to think about easing up on the brake

The Opportunity for the Brave



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- > ASX 15 year average PE is 14 - 14.5x
- > On this multiple, our current, 12 month rolling target for the ASX200 index is 5564
- > If you discount this by 20% due to global uncertainty
- > Even on 12x, our ASX 200 Index target would be 4,729
- > ***Equity valuations on this basis do not appear expensive***

The Opportunity for the Brave



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Key Points on ASX 200

- > Short term outlook is expected to remain volatile
- > Medium term outlook is favourable for equity market

Key Points on Asia

- > Strong economic growth provides a powerful platform for earnings growth and ROE
- > Asia, is not only a much stronger than it was 10 years ago, it is, in an absolute sense, in excellent shape

Macquarie Equities Research April 2010