

Monthly Market Watch – November Issue 2008

MARKET COMMENTS – OCTOBER

Market developments during October included:

- Equities markets recorded further losses in October. Despite the co-ordinated response by governments and central banks worldwide to stabilise the financial system, investors' attention appeared to have switched to the impact on corporate earnings from a slowing global economy. During the month, commodities were heavily sold off as doubts began to emerge over the ability of China to sustain its economic growth. Accordingly, Australian equities were down sharply, particularly for companies/sectors, such as mining companies, which are more dependent on the continuous growth of China.
- Global equities investors were protected from some losses through the sharp depreciation of the Australian dollar during the month.
- Government bonds recorded strong relative performance against equities in October. In Australia, fixed interest securities gained 2% for the month. The sector has benefited from the larger than expected 1.00% cut in interest rate during the month as the Reserve Bank aims to prevent the domestic economy falling into a recession.
- During the month, a number of listed property companies sought to raise capital at a steep discount to their trading share price. This was seen as a last resort for companies to strengthen their balance sheets and to alleviate concerns over potential breach of financial covenants. Many global property companies are also wrestling with the problem of higher cost of debt and falling property values.
- Commodities were down 21% in US dollars term with the price of crude oil plummeting during the month. Base and industrial metals were also heavily sold off as evidence emerged that demand is waning from big commodities consumers like China. The price for gold bullion fell from US\$871 to US\$725 during October. The spike in the price of the US dollar saw most commodities trading lower, including precious metals. The receding fears of inflation, amid a global economic slowdown, also reduced demand

for gold as a potential hedge against inflation.

Global economic forecasts for world GDP project that growth will slump in 2009 to around 1.5%. This pessimistic outlook (the IMF now forecasts 2.2%) reflects the view that advanced economies will contract on a full year basis in 2009 (the first time post World War II) as the impact of the global financial crisis hits consumer spending and business confidence. Developing economies will also be dragged down, though some forecasters (eg the IMF) argue that the developing economies (especially China which has announced a massive fiscal stimulus) will be relatively insulated. If developing economies hold up, this may limit the fall in commodity prices and volumes.

Global equity valuations are markedly better (adjusting for expected company earnings downgrades) after the massive share price falls seen in recent weeks when compared with Australian equities. It is believed that negative commodity prices and domestic growth outlook do not appear to be fully factored into Australian share prices.

The Australian cash rate was slashed further by 0.75% to 5.25% in November, as the RBA tries to avert a recession. Bond markets continue to foreshadow further significant rate cuts. There is scope to cut the cash rate to 3.5% as growth may slump to zero (or even negative) in 2009 resulting in unemployment rising over 5% (reaching 7% by 2010). The Federal government has already announced an A\$10.4B fiscal stimulus package which is estimated by economists to add around 0.8% to GDP in 2008/09.

STOCKS IN THE NEWS

St George Bank Limited (SGB)

St George shareholders have voted in favour of the merger with Westpac Banking Corporation. Under the merger arrangement St George shareholders will receive 1.31 Westpac shares for each share held. The new Westpac shares will commence trading on 18 November.

Bendigo and Adelaide Bank Limited (BEN)

Bendigo and Adelaide Bank Limited has announced that their recent offer to purchase

Convertible Preference Shares (CPS) has been withdrawn.

The bank has decided not to proceed with the CPS offer in the light of current uncertainty in financial markets. The bank was concerned that in these conditions the offer was no longer in the best interests of investors.

STOCKS TO CONSIDER

Australian Worldwide Exploration Limited (AWE) - BUY

Australian Worldwide Exploration operates in the oil and gas exploration and production industry. AWE has projects, including BassGas and the Casino gas developments offshore Victoria, which have locked in long-term, secure gas sales agreements. The Cliff Head oil project offshore Perth, WA, and the New Zealand oil discoveries add more variable, but potentially more profitable, oil earnings.

The New Zealand (Tui) Oil field is producing well and is generating a very strong cash flow, however, as their existing fields enter decline the company will have to focus on exploration to seek additional reserves to extend its production profile.

Company guidance has 2009/10 production down 5% on 2008/09 although this may be a conservative estimate given the strong production of its Tui and Bass Basin assets. Oil prices have fallen significantly, adding pressure to earnings, but on the upside, the company has increased their production profile through the Arc Energy merger and exploration success in Henry which is expected to produce in 2nd half 2009.

Price as at 17 November 2008 \$2.37

Computershare Limited (CPU) - BUY

Computershare offers exposure to a growth-oriented share registry provider to the global securities industry. Computershare's long-term growth is underpinned by the strategy of diversifying from the low-margin registry business into the higher-margin investor-relations area. The company is expected to achieve continued earnings growth over the medium to long term.

It is considered that Computershare is likely to escape the turmoil in investment markets relatively unscathed due to its high recurring earnings and diversified earnings base (geographically and by business type). Earnings in 2008/09 are projected to be relatively flat in US\$ terms and up in A\$ terms.

Price as at 17 November 2008 \$6.96

Ramsay Health Care Limited (RHC) - BUY

Ramsay is Australia's largest private hospital player with market leadership in nearly every state, strong bargaining power with the health funds, high profile branding and extensive medical relationships. Ramsay has an excellent management team that has a track record of delivering solid earnings growth over many years. Favourable industry fundamentals underpin the outlook for this quality company on a long-term basis.

Ramsay has a dominant position in Australia and is now the fourth largest player in the UK market. Ramsay has two-thirds of a \$550M expansion program to complete over the next two years, with returns expected from 2011/12.

Price as at 17 November 2008 \$10.37

Telstra Corporation Limited (TLS) - BUY

Telstra is the incumbent carrier in Australia and, like others, suffers the ignominy of core margins under pressure, heightened competition and unsympathetic regulators. However, management has undertaken a transformation strategy to lower its cost base and enhance product offerings. The company is delivering on its milestones and is continuing to deliver growth in other areas, while slowing the decline in its traditional telephone network.

The company's transformation strategy should be positive and should better position Telstra to respond to changing market dynamics. Telstra's transformation has surpassed some significant milestones, but there are still many challenges ahead, notably the rationalisation of its IT platforms.

Price as at 17 November 2008 \$4.23

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