The Year That Was: 2012/13

Craig James,
Chief Economist,
CommSec

Savanth Sebastian,
Economist,
CommSec

CommSec

Important Information

This presentation has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Before acting on the information in this seminar, you should consider its appropriateness to your circumstances and, if necessary, seek appropriate professional advice.

Commonwealth Securities Limited ABN 60 067 254 399
AFSL 238814 (CommSec) is a wholly owned but non-guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124 and a Participant of the ASX Group.

Examples used in this presentation are for illustrative purposes only.

CommSec

Year in review

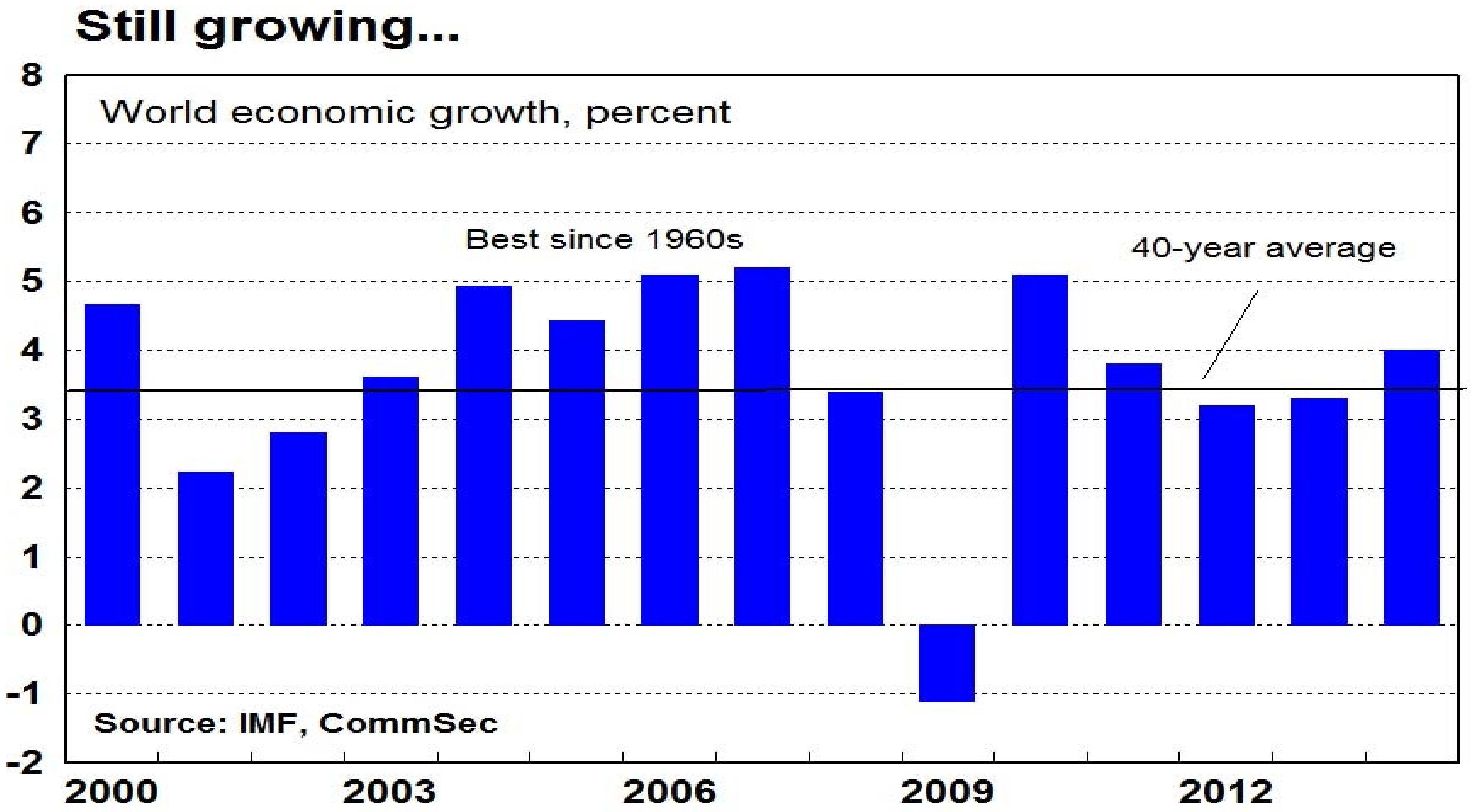
- The European debt crisis eased in the early part of 2012/13, after the European Central Bank acted as lender of last resort announcing a bond buying program.
- Stimulus in September – China announces $157 billion worth of infrastructure projects. US Federal Reserve begins open ended bond buying program – QE3.
- Democrats win US election, providing another boost to sharemarkets.
- US Budget sequestration dominates sentiment in late December.
- China tightens policy on property finance in March 2013.
- Cyprus formally bailed out in March 2013.
- Nikkei gains 80% between November - May on Japanese stimulus.
- The US economic recovery gathers momentum, Fed discusses exit strategy.
- The Reserve Bank cuts the cash rate from 3.50% to 2.75% over 2012/13.
- China credit crunch in June. Shibor – interbank lending rate – in focus. Policymakers attempt to clean up the "shadow banking system".
- The ASX 200 rose 19.3% from November - May and then lost 11% in six weeks.
- The Aussie dollar traded over a near US15 cent range in 2012/13.

Year in review

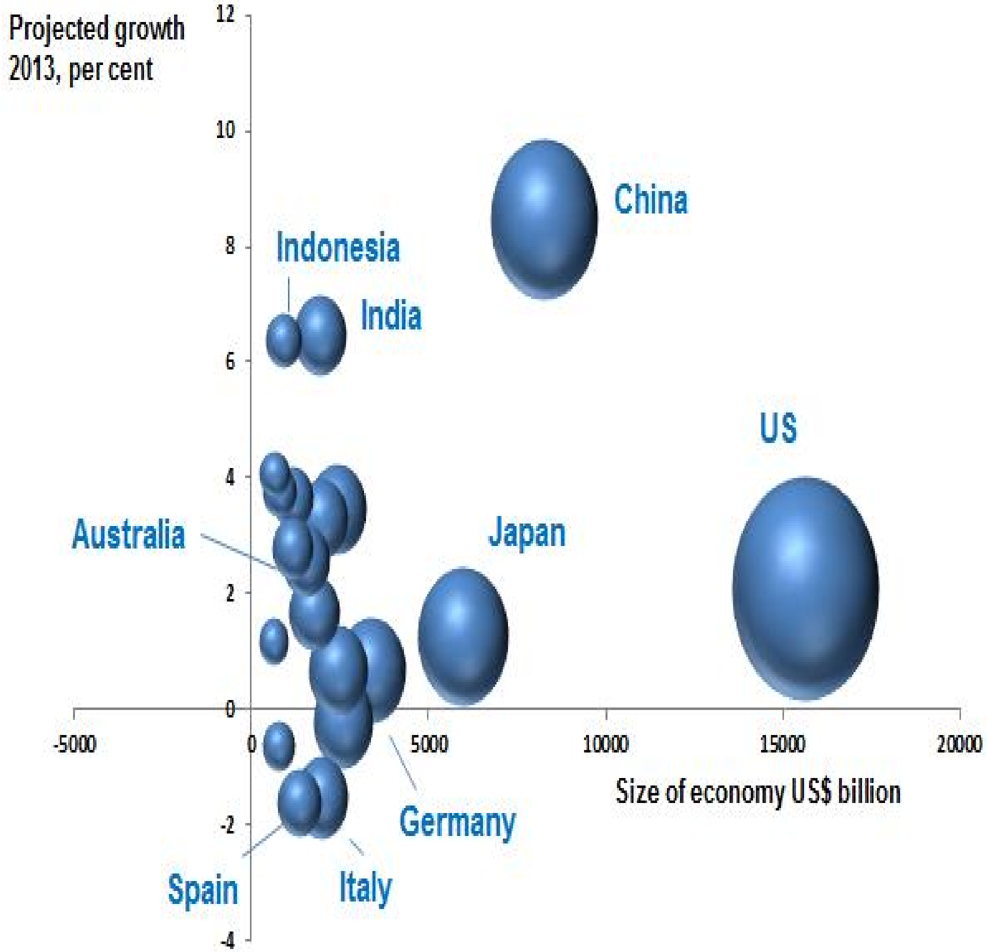
Key financial indicators 2012/13

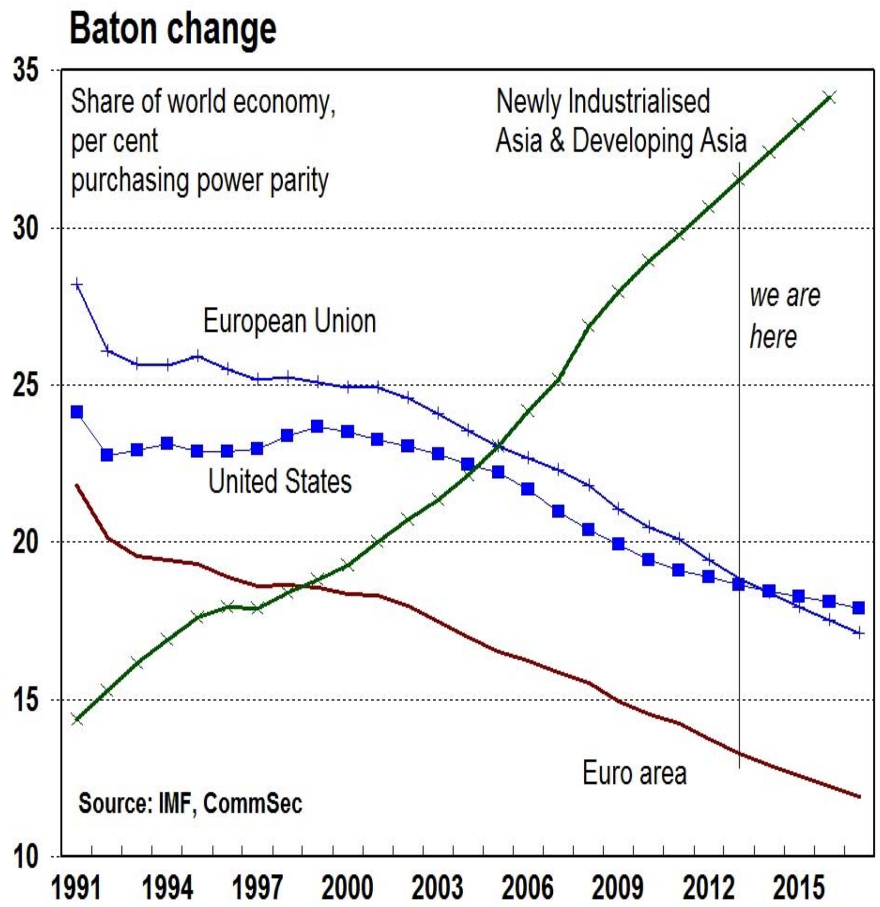
	June 30 2012	*High*	*Low*	*June 30 2013*	*% change*
ASX 200	4,095	5,250	4,062	4,803	*+17.3%*
US Dow Jones	12,880	15,409	12,542	14,909	*+15.8%*
AUD/USD, *US cents*	101.91	106.24	91.36	91.36	*-11.5%*
90 day bank bills	3.49%	3.65%	2.77%	2.82%	-
10 year bond yields	3.04%	3.92%	2.72%	3.75%	-
Oil, *US$ per barrel*	84.96	99.00	83.75	96.56	*+13.7%*
Gold, *US$ per ounce*	1,604.20	1,794.80	1,183.20	1,223.70	*-23.7%*

Global economy



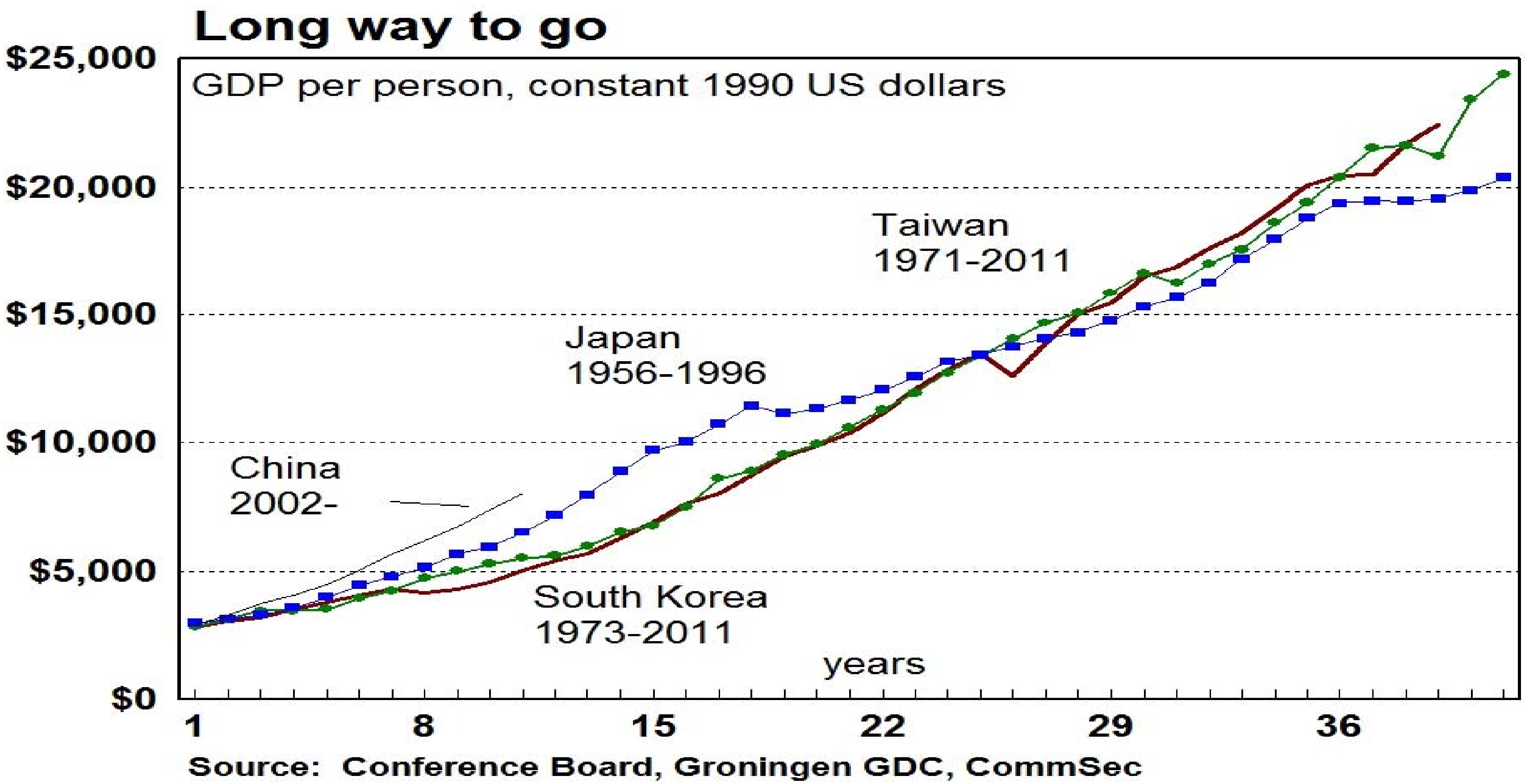
Global perspective





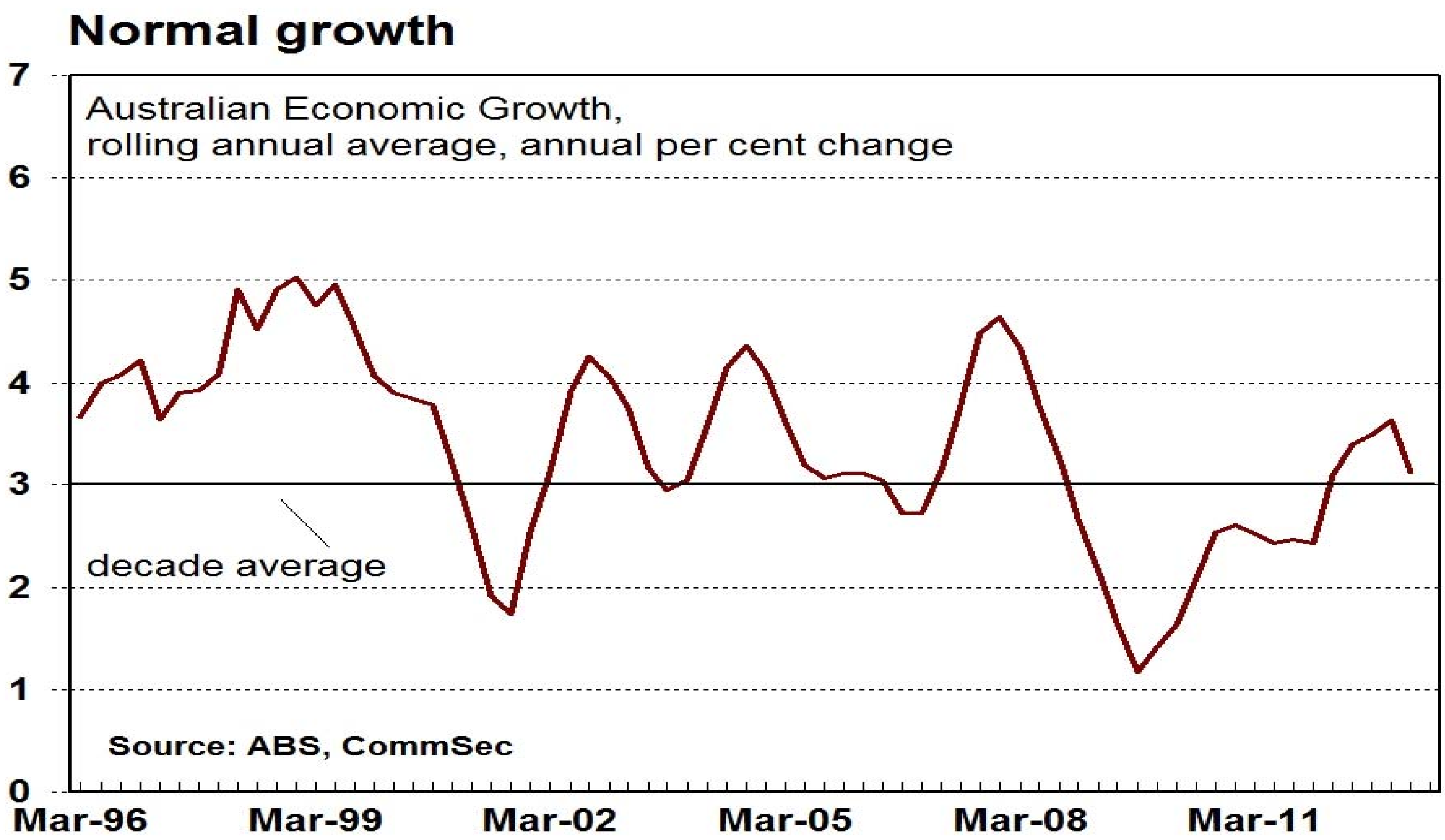
CommSec

China perspective



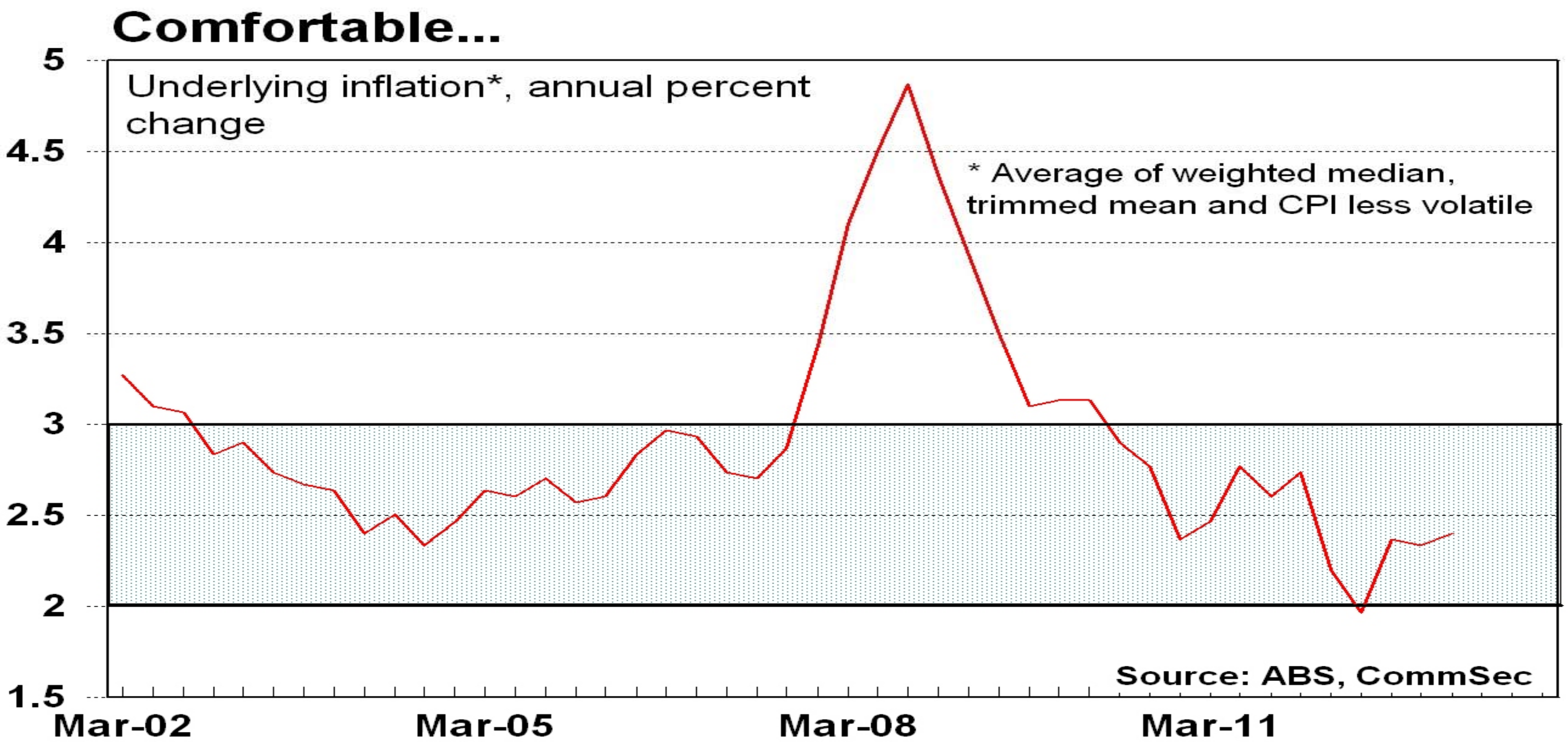
CommSec

Australia

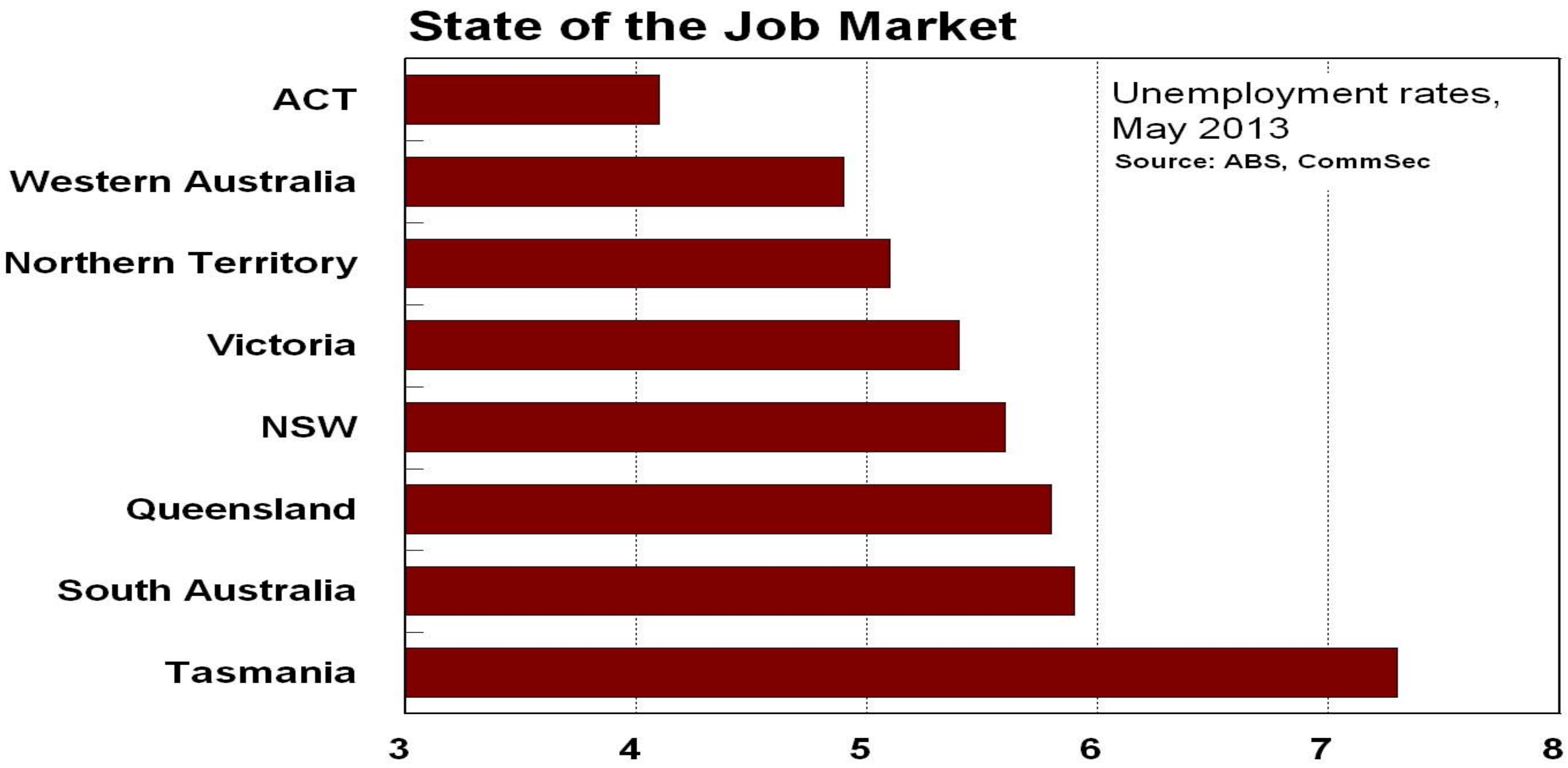


CommSec

Inflation

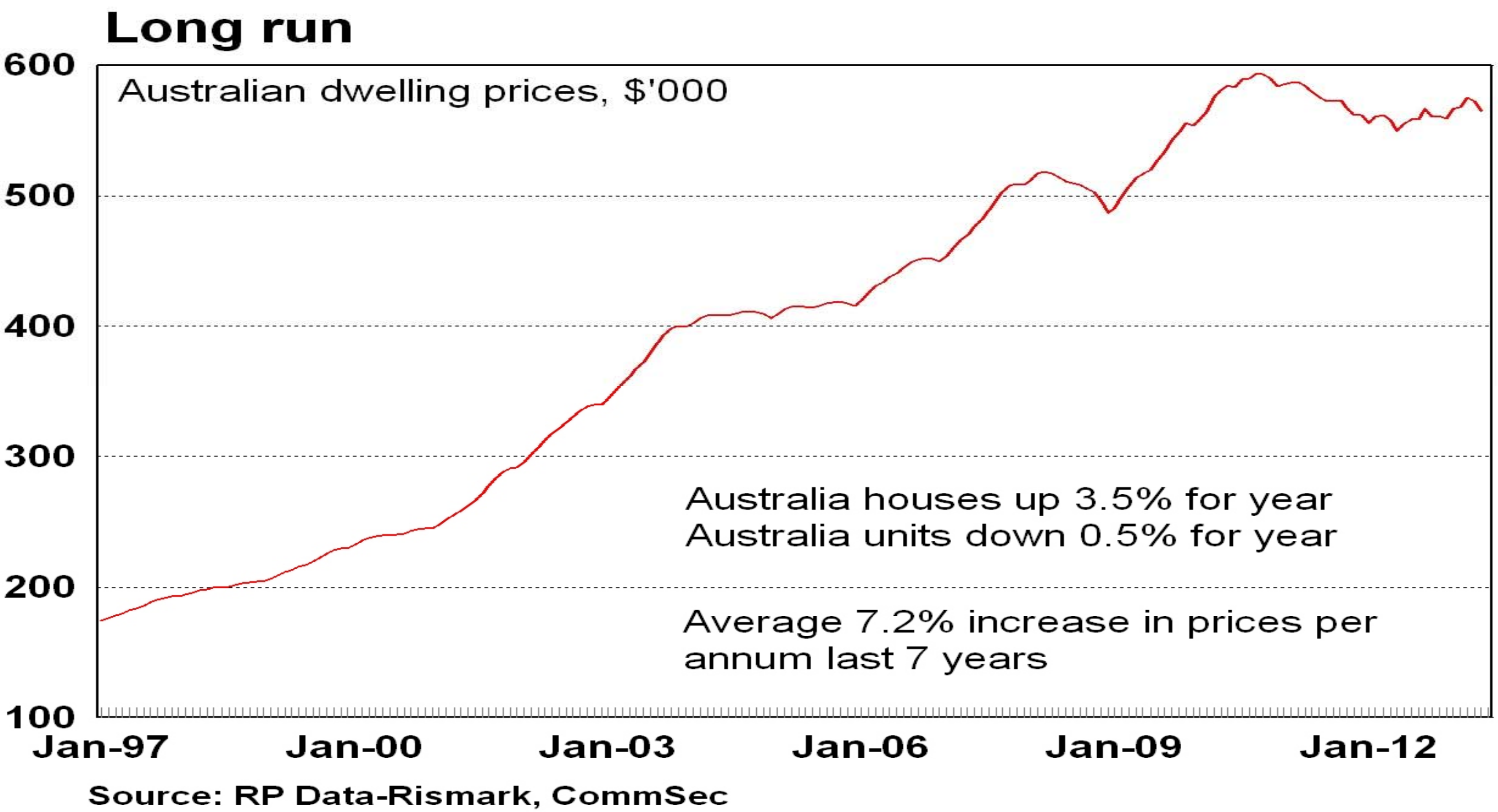

Comfortable...
Underlying inflation*, annual percent change
* Average of weighted median, trimmed mean and CPI less volatile
5
4.5
4
3.5
3
2.5
2
1.5
Mar-02
Mar-05
Mar-08
Mar-11
Source: ABS, CommSec

Job market



CommSec

Home prices

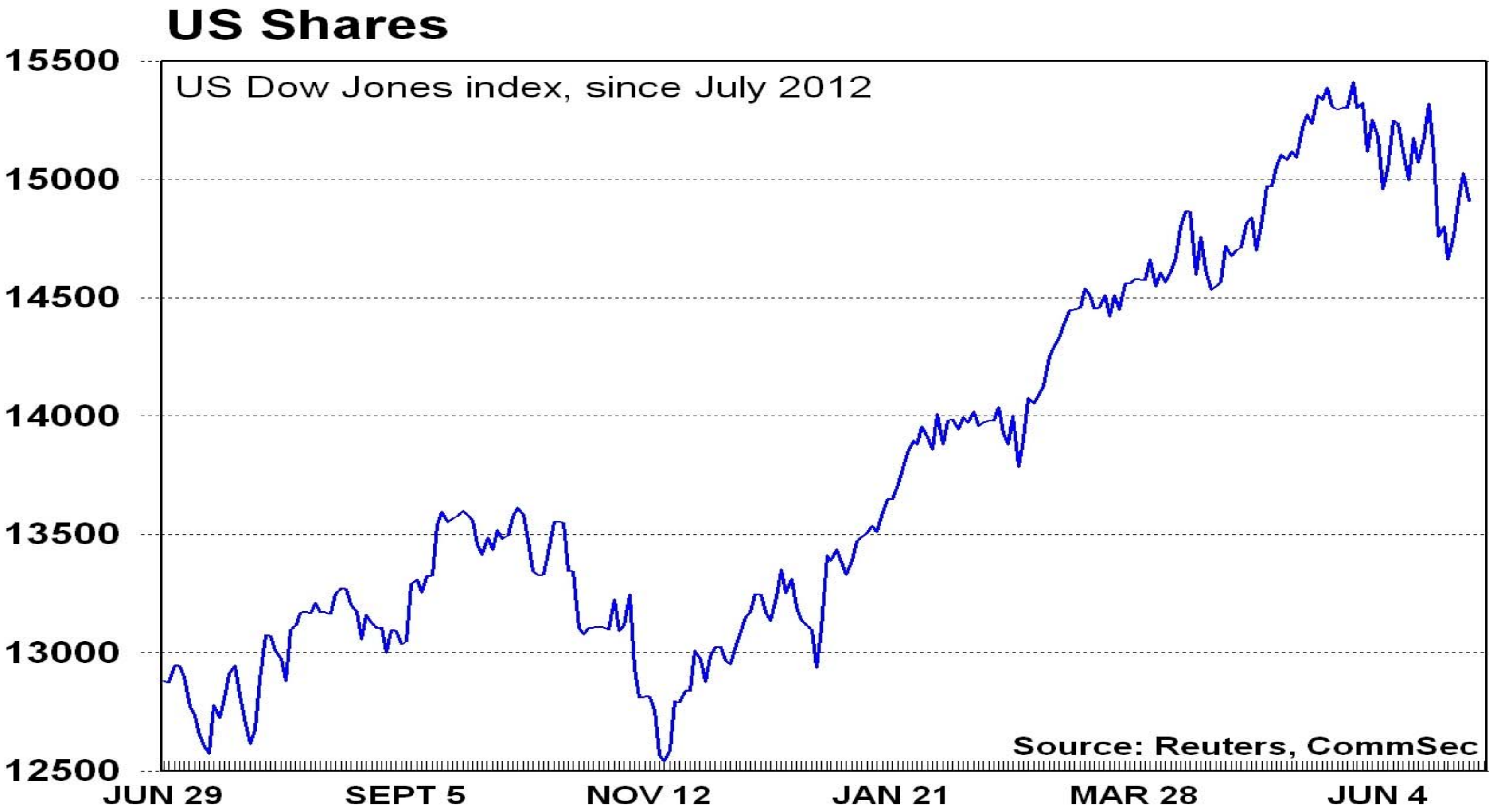

Long run
Australian dwelling prices, $'000
600
500
400
300
200
100
Australia houses up 3.5% for year
Australia units down 0.5% for year
Average 7.2% increase in prices per annum last 7 years
Jan-97
Jan-00
Jan-03
Jan-06
Jan-09
Jan-12
Source: RP Data-Rismark, CommSec

Global sharemarkets

Top markets 2012/13	
	% change
Venezuela	292.1
Nigeria	67.4
Zimbabwe	60.0
Pakistan	52.2
Japan	51.9

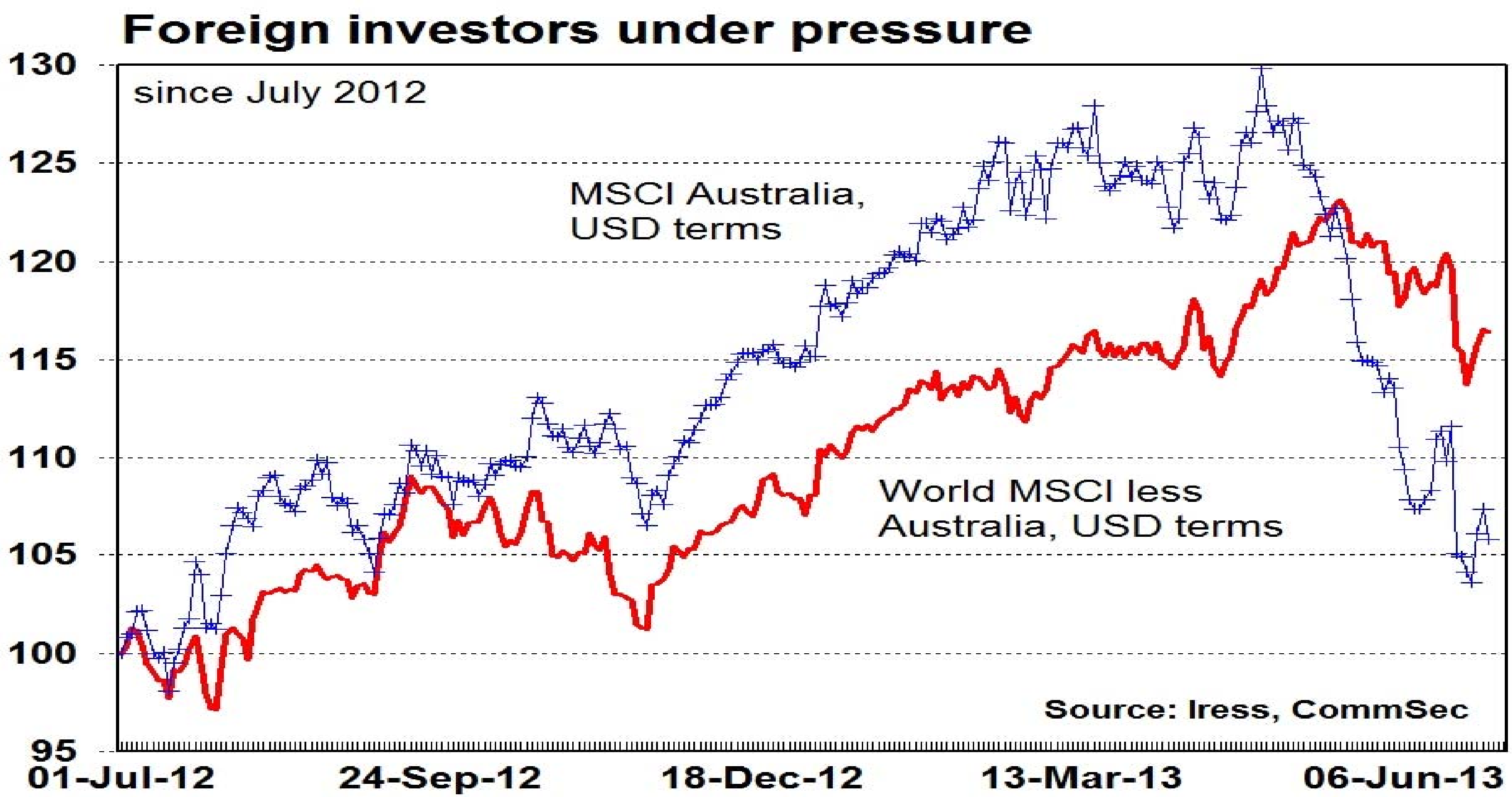
Bottom markets 2012/13	
	% change
Cyprus	-28.7
Peru	-23.0
Ukraine	-14.5
Morocco	-12.5
China	-11.1

US sharemarket



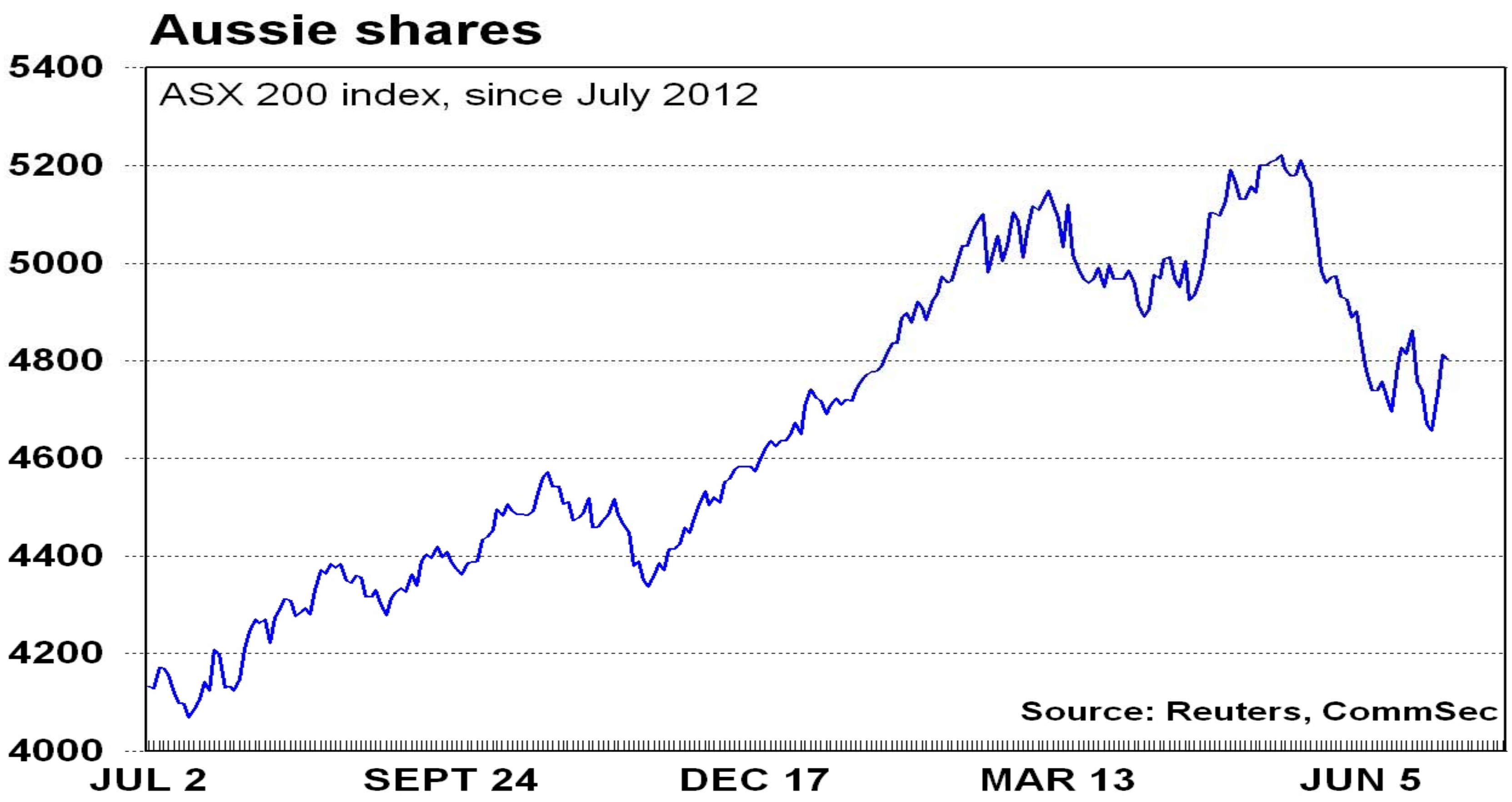
CommSec

Sharemarket comparisons



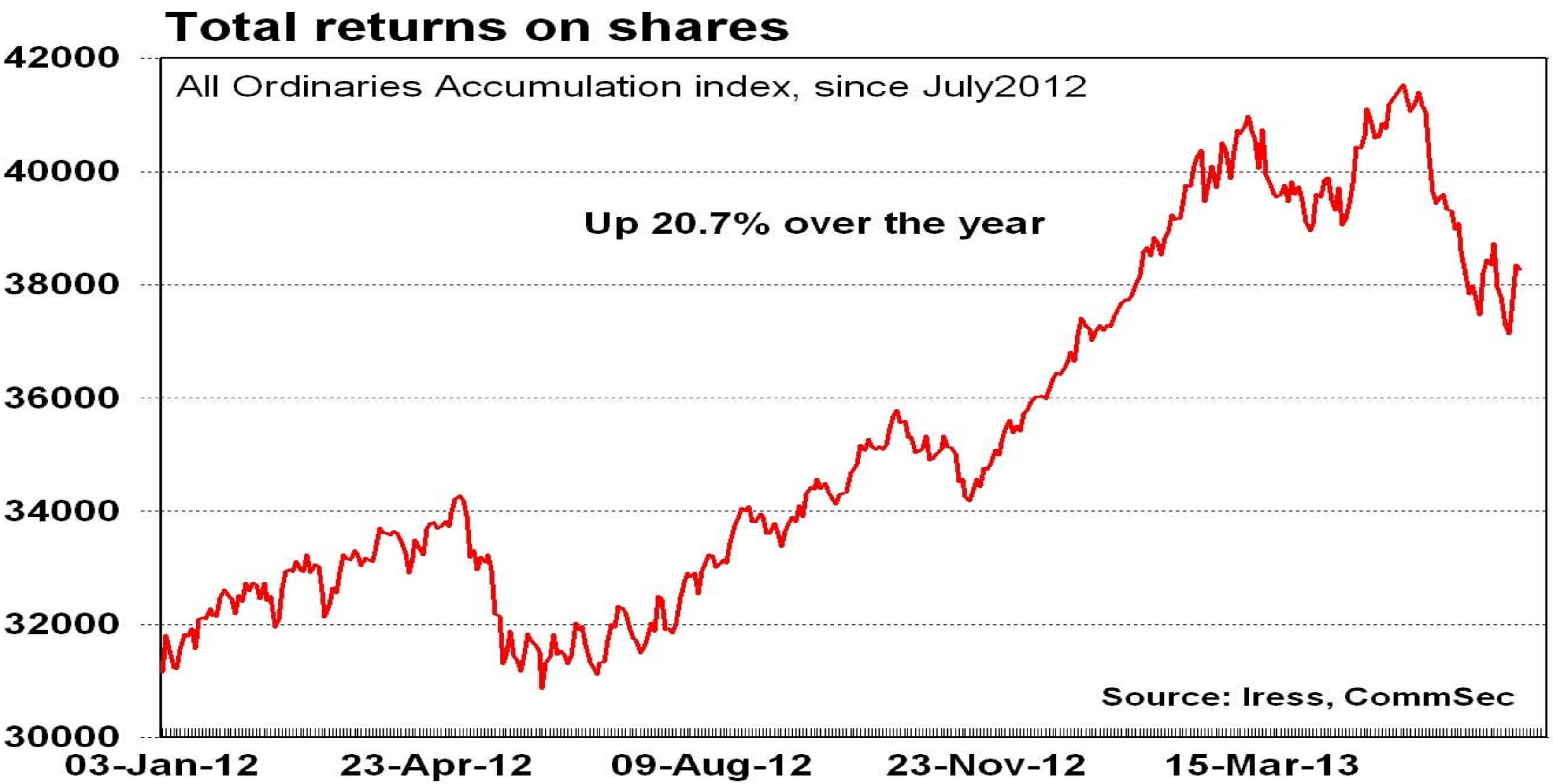
CommSec

Australian sharemarket



CommSec

Australian share returns



CommSec

Australian industry sectors

AUSTRALIAN INDUSTRY GROUPS

percent change 2012/13

Pharmaceuticals & biotech	50.1	Commercial & profess. services	23.6
Diversified financials	45.0	Transportation	20.8
Retailing	40.3	***S&P/ASX 200***	***17.3***
Software & services	37.3	Real Estate	17.1
Media	37.2	Food beverage & tobacco	13.3
Banks	31.1	Utilities	9.0
Health Care	30.5	Energy	5.1
Telecommunication services	30.3	Materials	-10.2
Insurance	27.5	Capital goods	-30.2
Food & drug retailing	27.2	Consumer durables & apparel	-55.5
Consumer services	24.7		

Source: Iress, CommSec

Australian stocks

BEST & WORST STOCKS, ASX 200

percent change 2012/13

Best		Worst	
Sirius Resources	3547.1	Discovery Metals	-90.4
Magellan Financial Group	374.0	Billabong International	-86.1
Bluescope Steel	159.4	Perseus Mining	-82.5
G8 Education	153.6	Sundance Resources	-79.1
Flight Centre	107.8	Silver Lake Resources	-78.8
TPG Telecom	101.7	Boart Longyear	-76.4
IINET	101.3	Ausdrill	-74.9
REA Group	100.8	St Barbara	-74.6
Sirtex Medical	96.7	Kingsgate Consolidated	-73.9
JB Hi-Fi	89.7	NRW Holdings	-69.9

Source: Bloomberg, CommSec

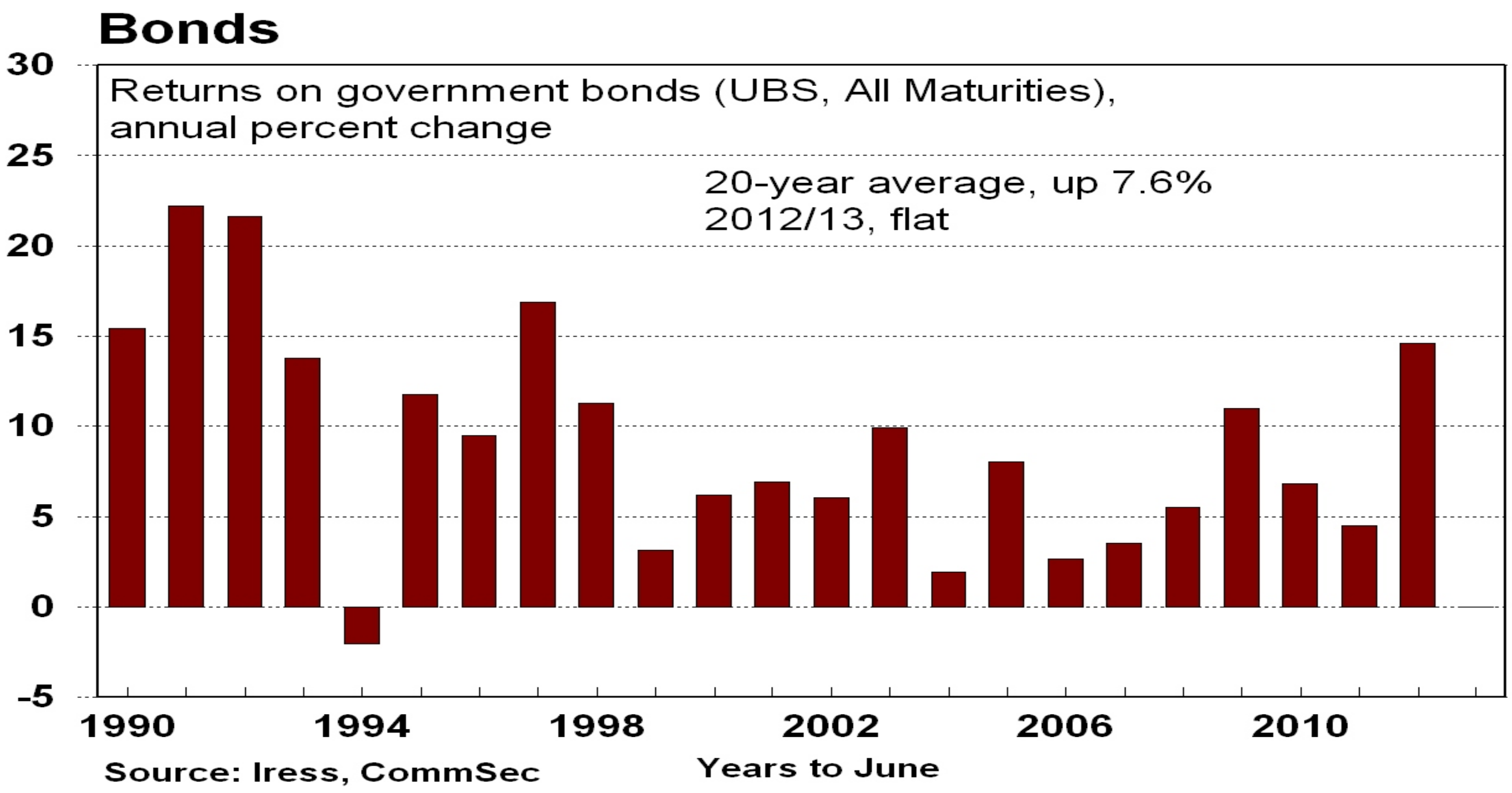
Australian stocks

PERFORMANCE OF BIGGEST 20 STOCKS in 2012/13

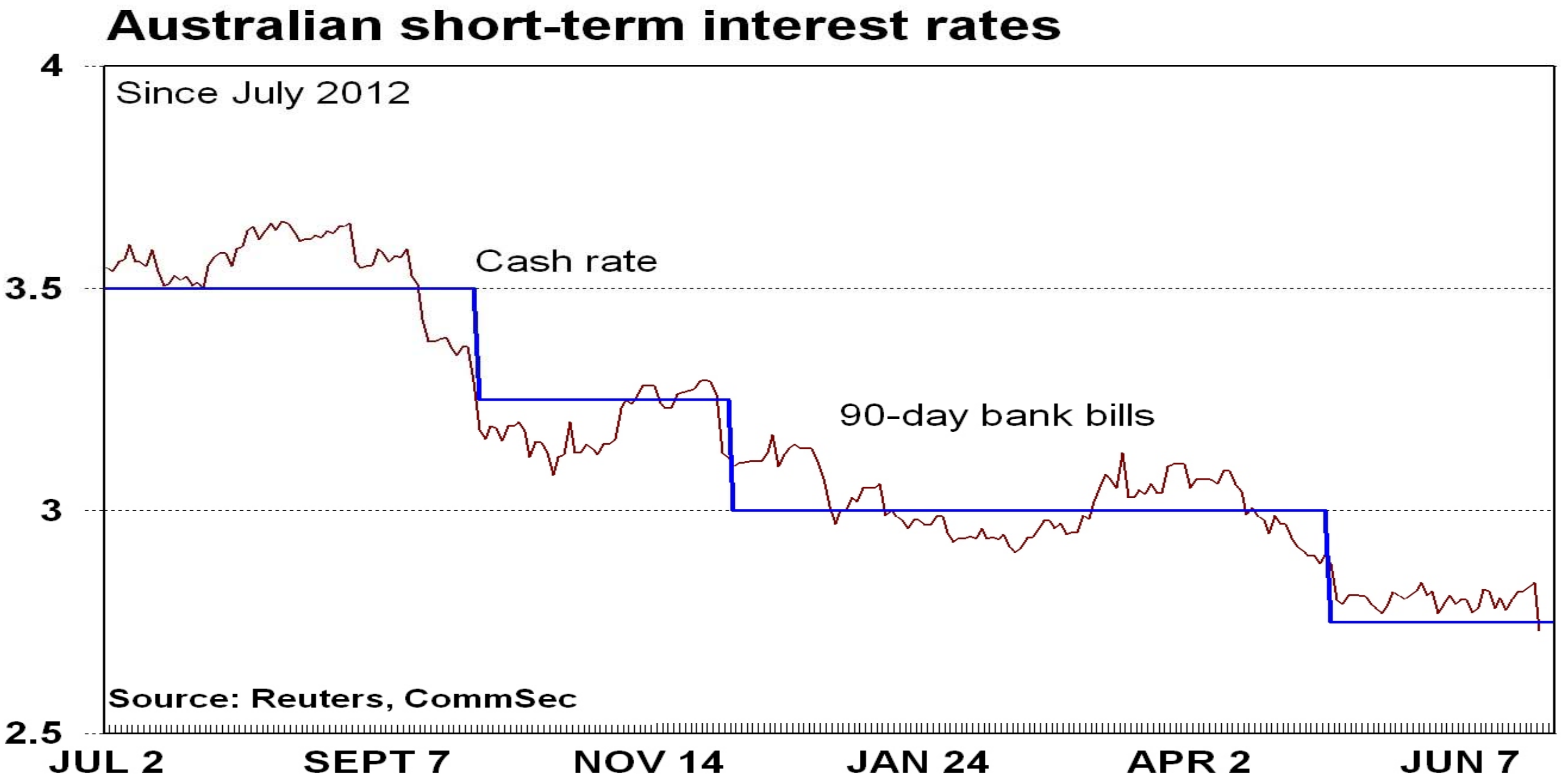
		29-Jun-12	*High*	*Low*	*28-Jun-13*	*% change*
BHP	BHP Billiton	$30.60	$39.34	$30.09	$31.37	2.5
CBA	Commonwealth Bank	$52.15	$74.18	$52.36	$69.18	32.7
WBC	Westpac	$20.92	$34.69	$20.67	$28.88	38.0
ANZ	ANZ Bank	$21.54	$32.09	$21.44	$28.58	32.7
NAB	National Australia Bank	$23.38	$34.37	$22.97	$29.68	26.9
TLS	Telstra	$3.67	$5.15	$3.66	$4.77	30.0
WES	Wesfarmers	$29.72	$44.25	$29.48	$39.60	33.2
WOW	Woolworths	$26.75	$36.84	$26.21	$32.81	22.7
RIO	Rio Tinto	$55.08	$72.30	$48.37	$52.37	-4.9
CSL	CSL	$38.90	$64.70	$38.32	$61.58	58.3
WDC	Westfield	$9.51	$12.55	$9.38	$11.44	20.3
WPL	Woodside Petroleum	$30.92	$38.69	$29.61	$35.01	13.2
NCM	Newcrest Mining	$21.85	$29.97	$9.06	$9.87	-54.8
QBE	QBE Insurance	$12.84	$16.39	$10.02	$15.09	17.5
ORG	Origin Energy	$12.61	$13.80	$9.84	$12.57	-0.3
AMP	AMP	$3.80	$5.79	$3.72	$4.25	11.8
STO	Santos	$7.93	$13.54	$10.04	$12.53	58.0
SUN	Suncorp-Metway	$11.04	$12.98	$7.75	$11.92	8.0
BXB	Brambles	$6.07	$9.53	$6.04	$9.34	53.9
MQG	Macquarie Bank	$25.56	$47.37	$23.56	$41.87	63.8

Source: Iress, Reuters, CommSec

Australian bond market returns

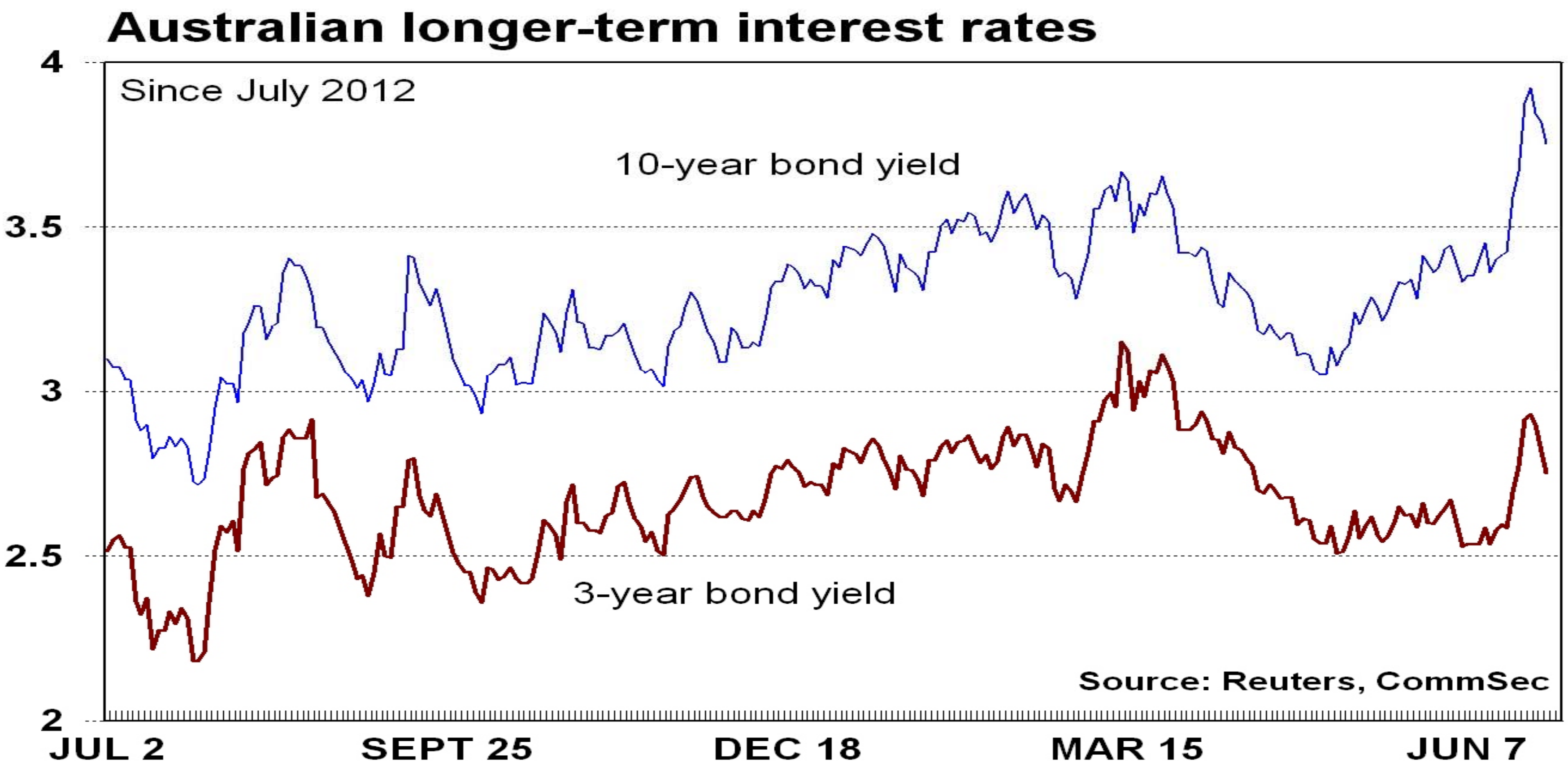


Australian short-term interest rates

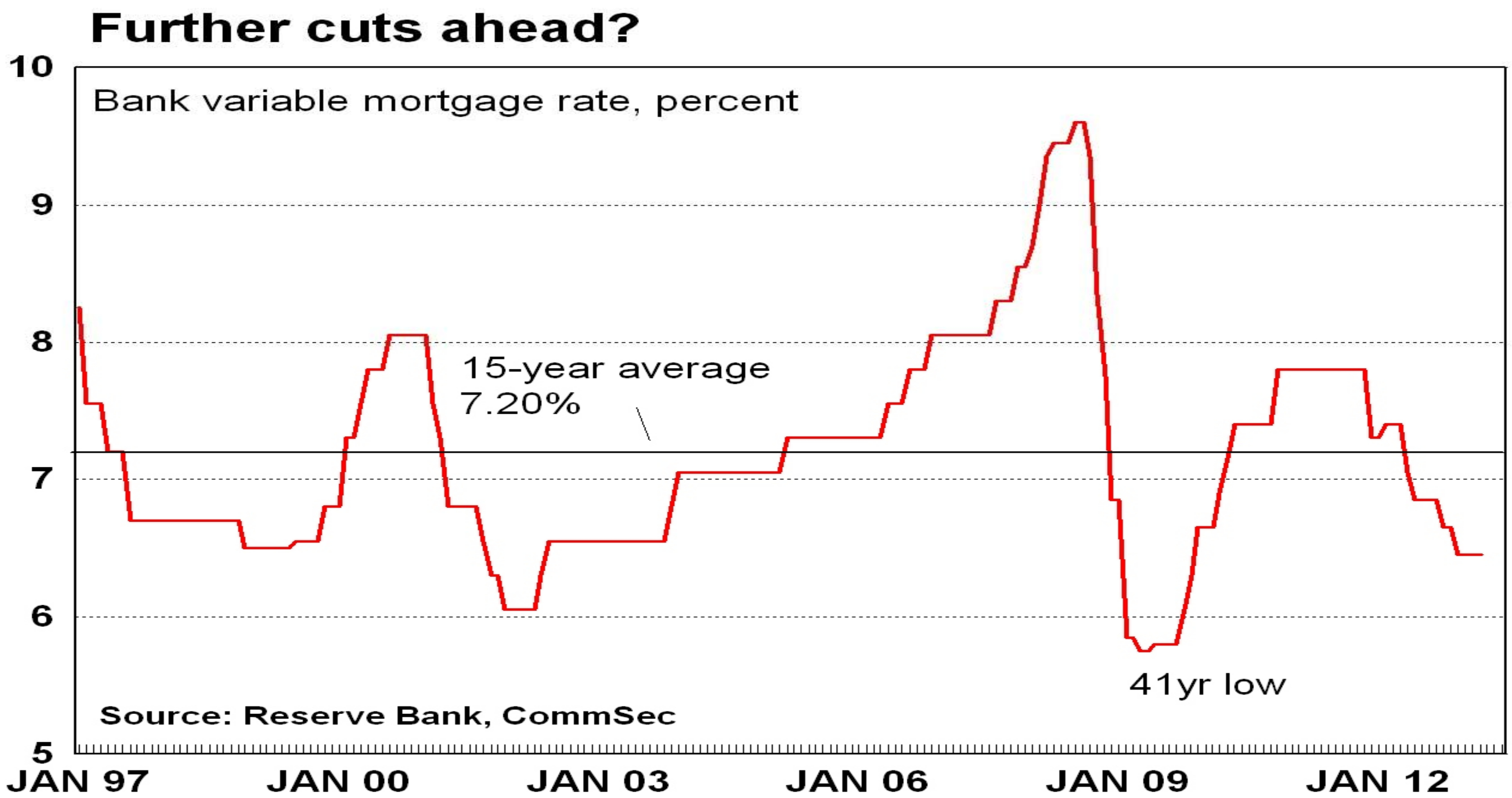


CommSec

Australian longer-term rates



Interest rates: Housing

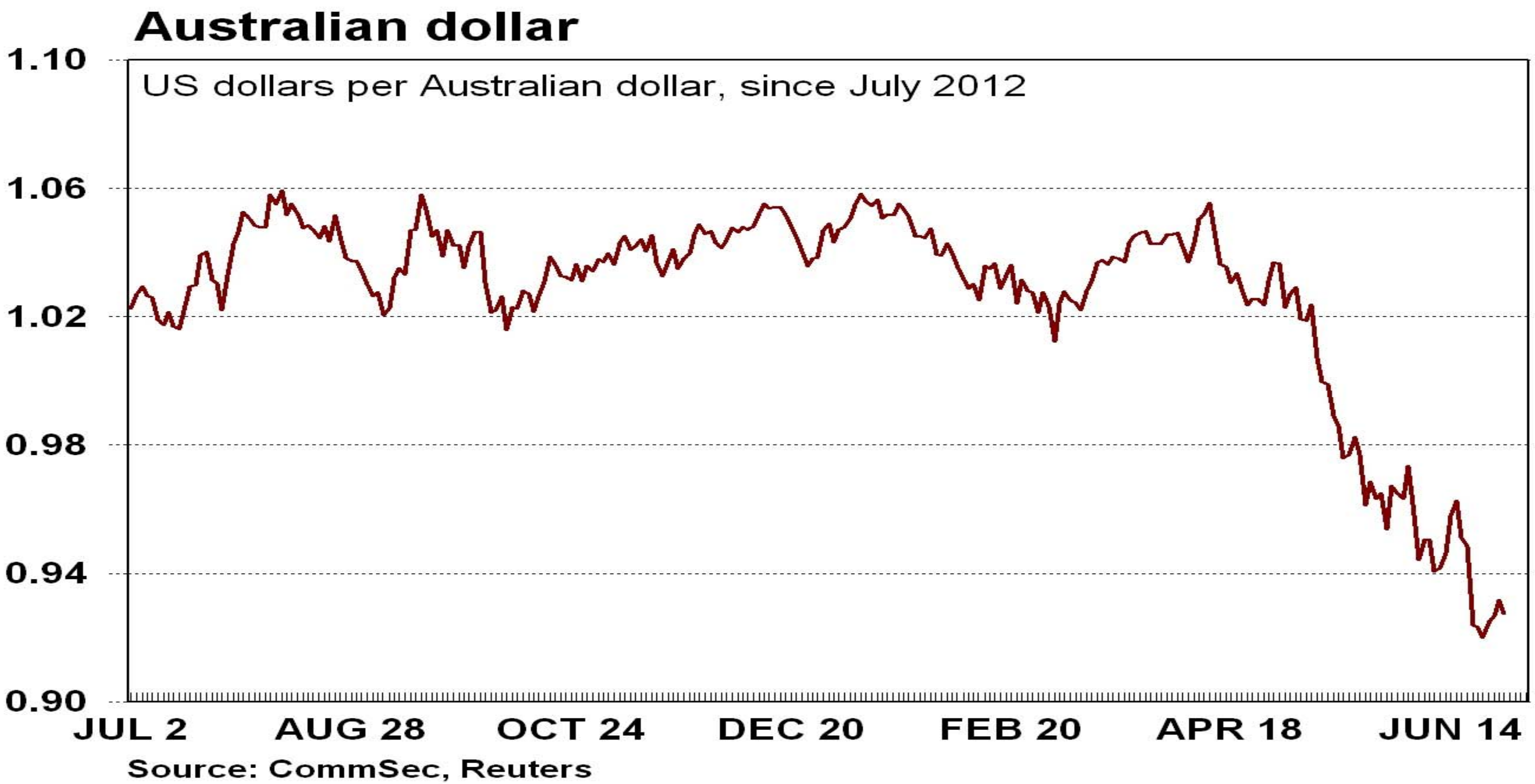


Currency markets

Strongest currencies against USD 2012/13	
	% change
Seychelles rupee	16.3
Israeli shekel	6.9
Uruguayan Peso	5.7
Bangladesh taka	5.0
Serbia dinar	4.5

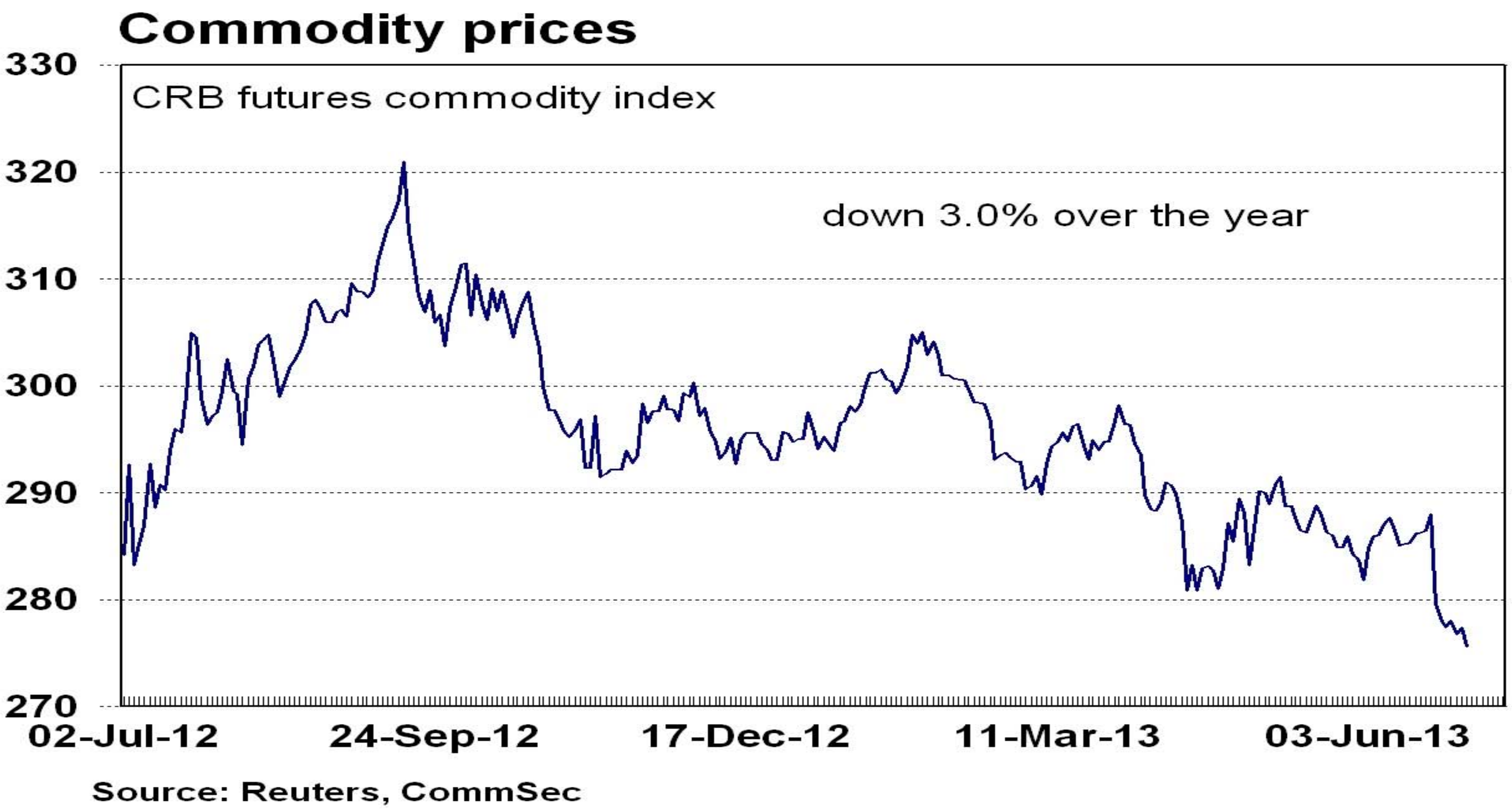
Weakest currencies against USD 2012/13	
	% change
Syria pound	-56.7
Venezuelan Bolivar	-46.5
Japanese Yen	-24.3
Swazi lilangeni	-21.1
South African Rand	-20.5

Australian dollar, versus USD



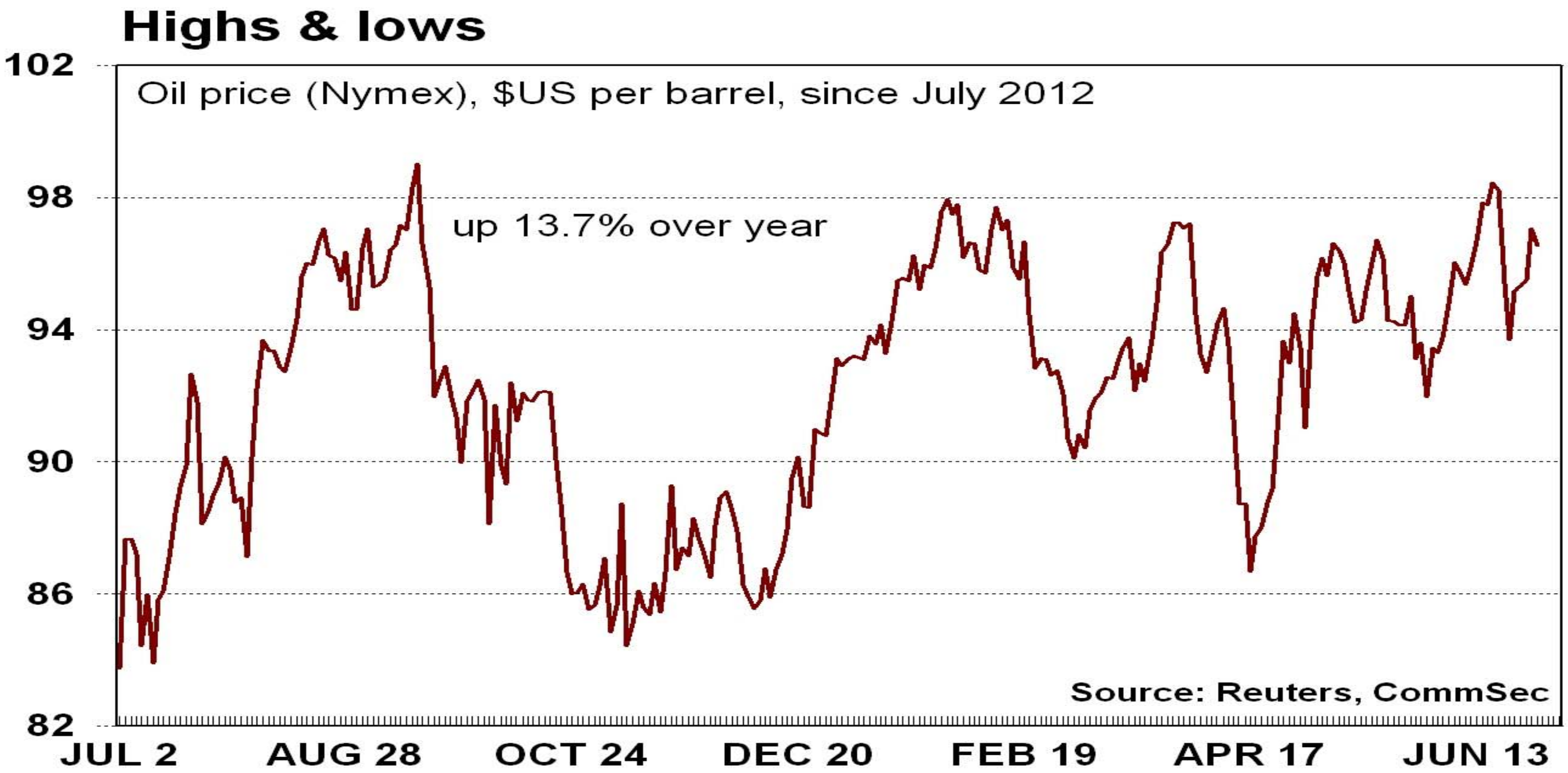
Australian dollar, versus Euro

Commodity prices

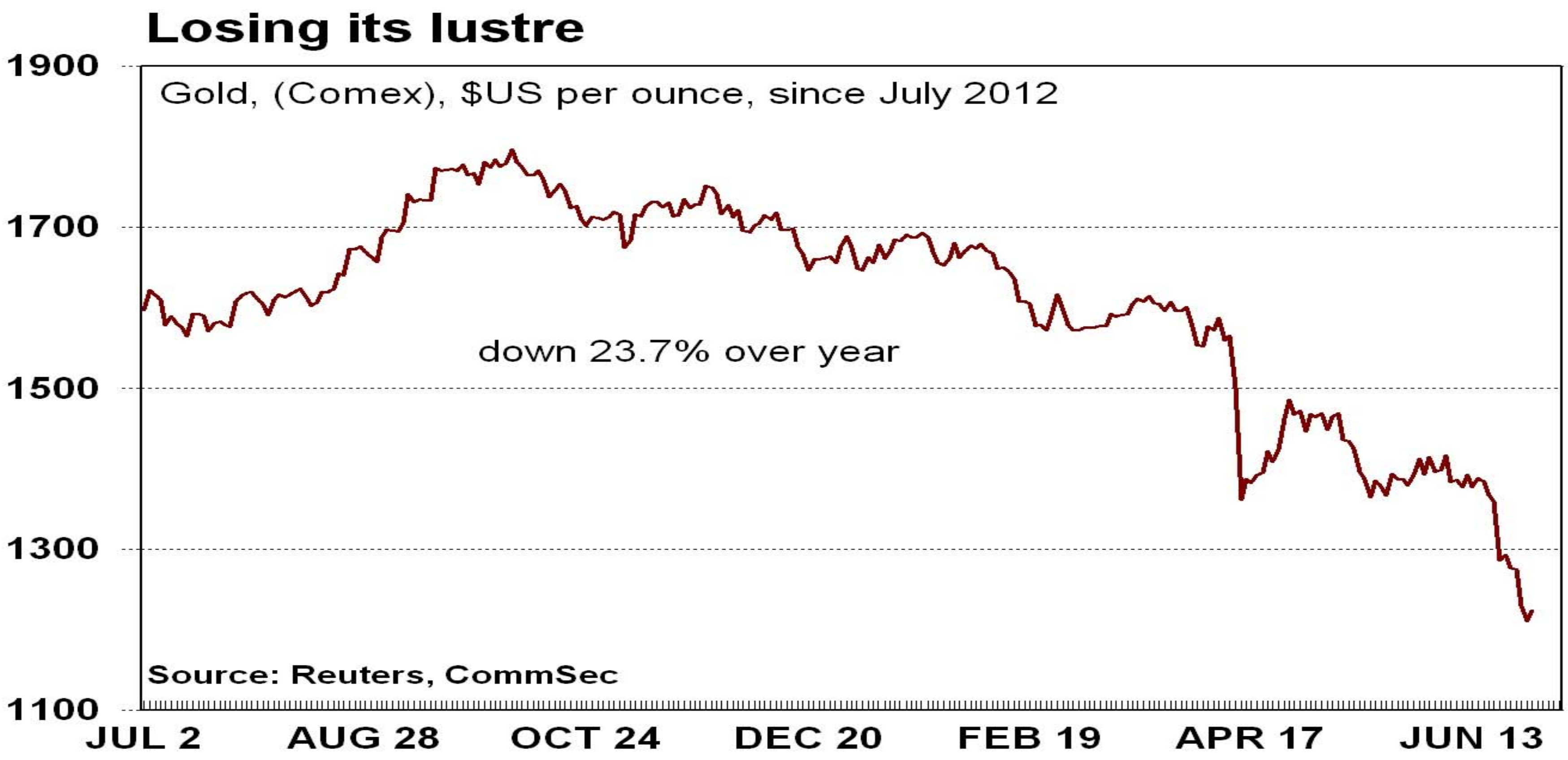


CommSec

Oil price


Highs & lows
Oil price (Nymex), $US per barrel, since July 2012
up 13.7% over year
Source: Reuters, CommSec
102
98
94
90
86
82
JUL 2
AUG 28
OCT 24
DEC 20
FEB 19
APR 17
JUN 13

Gold price



Losing its lustre
1900
1700
1500
1300
1100
Gold, (Comex), $US per ounce, since July 2012
down 23.7% over year
Source: Reuters, CommSec
JUL 2
AUG 28
OCT 24
DEC 20
FEB 19
APR 17
JUN 13

Base metal prices

CommSec

Outlook for 2013/14

- We believe the US Federal Reserve will begin tapering stimulus over the coming year, and while it will add to market volatility it is unlikely to detract significantly from the US growth profile.
- Chinese authorities will continue to tighten financial regulation. But as they have shown in the past few months, they are likely to tread more cautiously than in the past with more of a focus on ensuring economic growth remains sustainable.
- CommSec believes that the US economy is going to continue to strengthen over the coming year. The good news is that the housing imbalance is being corrected, US companies are making solid returns and job growth is healthy.
- The Australian economy is expected to experience around 'normal' growth over 2013/14 with growth of around 3.00 per cent. Activity will accelerate markedly after the Federal Election.
- There is likely to be an added degree of volatility in markets over the coming year. The structural changes in China, a stronger US dollar and resulting weaker commodity prices are likely to keep resource stocks under pressure.
- The Reserve Bank will continue to maintain a low interest rate environment and as such asset reallocation from cash to growth assets like equities will remain a strong theme. High yielding stocks will be well supported. CommSec tips the ASX 200 to be at 5,400 in June 2014 with the Aussie dollar expected to be around US92 cents.

Forecasts

Economic growth	2.75-3.25% in 2012/13	2.75-3.25% in 2013/14
Inflation	2.5% in 2012/13	2.5% in 2013/14
Unemployment	5.25%-5.75%, end 2013	5.00-5.50%, mid 2014
Cash rate	2.50-2.75%, end 2013	2.75-3.25%, mid 2014
Sharemarket (All Ords)	5,200 points, end 2013	5,400 points, mid 2014
Australian dollar	US95c end 2013	US92c mid 2014