Week

4

Stories To Read From FNArena

Friday, 25 January 2013

FNArena
Passionate About Financial News

PO Box 49
145 Sydney Road
Fairlight NSW 2094

info@fnarena.com

Your editor
Rudi Filapek-Vandyck

Your dedicated team of journo's
Greg Peel
Chris Shaw

Contents

Small Caps

Treasure Chest

Weekly Analysis

Weekly Recommendation, Target Price & Earnings Forecast Changes

By Andrew Nelson

Analysts continued to get their New Year's ducks in a row at a frenzied pace, with no less than 40 upgrades and downgrades made to Australian listed stocks last week. Much of the change came as a result of broad based sector reviews, with commodity price and FX related marking to market exercises changing the tone of many valuation pictures, while brokers otherwise got down to the more mundane task of getting back to business.

BA-Merrill Lynch lifted Bank of Queensland ((BOQ)) to Buy from Neutral on improving volumes and a quicker than expected bad debt recovery. The stock remains positively regarded, with nothing but Buys and Holds in the FNArena Database. Although, the current share price is at a slight premium to consensus opinion.

It was a busy week for Billabong ((BBG)) after a new bid emerged and drew both Credit Suisse and JP Morgan into upgrading their calls. CS moved to Buy from Neutral, while JPM is just up to Neutral. The sentiment read in the database has pushed into positive territory, but it's mostly on the back of potential M&A upside. Boral ((BLD)) also received a double upgrade, with Deutsche Bank and Credit Suisse both lifting their calls one notch to Buy on news the company plans to book $105m in cost savings. Unfortunately for Boral, the same news sparked two downgrades, with both CIMB and JP Morgan cutting to Sell. The changes see the stock at a flat Neutral sentiment in the database.

Cockatoo Coal ((COK)) was bumped up one notch to Buy from Neutral by Credit Suisse, as was experimental drug maker Mesoblast ((MSB)). The latter was lifted on a positive outcome for a Phase-2 lumbar spinal fusion trial, with the broker positive given the news means the company can now meet with the US FDA to discuss a Phase-3 trial. The stock is positively regarded in the FNArena Database, with the upgrade making it three Buys and one Hold, with 22% upside to the consensus target.

Credit Suisse also took a look at gaming stocks, upgrading Crown ((CWN)) from Hold to Buy and Tatts Group ((TTS)) from Sell to Hold. The upside for Crown comes from upgraded MPEL earnings forecasts on the back of growing momentum in Macau, while Tatts is lifted to reflect the broker's view that shares will continue to re-rate over the months ahead. Crown boats a near perfect sentiment in the database with seven Buys versus just one Hold, while Tatts' record is a bit patchier, with four Holds, three Sells and just one Buy.

Commonwealth Property Office ((CPA)) was lifted to Hold from Sell by JP Morgan on a positive view of the A-REIT space. The broker also lifted James Hardie ((JHX)) to Hold from Sell as part of a sector review that contained mostly downgrades.

JP Morgan also lifted OzMinerals ((OZL)) to Hold from Buy on valuation grounds, with there being more than 20% upside to the broker price target. However, a close look at the database shows only 3.3% upside to the consensus price target, while two Buys, three Sells and two Holds keep the sentiment level slightly below Neutral.

The last two upgrades are from BA-Merrill Lynch, with Gindalbie Metals ((GBG)) and Grange Resources ((GRR)) both receiving double bumps from Sell to Buy on new iron ore price expectations. The stocks both sit in positive territory sentiment wise, with mixed Buys and Holds on record.

Conversely, BA-ML downgraded Adelaide Brighton ((ABC)) to Sell from Neutral on an expectation the company's growth profile will slow considerably over the coming months and this will in turn lead to a general de-rating. The downgrade leaves the stock in positive sentiment territory, with four Buys, three Holds and the new Sell call on record.

More from the A-REIT space, with JP Morgan making two moves from Neutral to Sell last week. Both Australand

((ALZ)) and Investa Office ((IOF)) were downgraded on relative valuation grounds. While the cut does little harm to ALZ, which remains in positive sentiment territory in the database, Investa has dropped well into negative territory on one Buy, two Sells and three Holds. A related view that building materials stocks have rallied too hard on hope/anticipation rather than on actual improvements in profits also sees the broker cut Fletcher Building ((FBU)) to Sell.

Next on the list is Woodside ((WPL)), Beach Energy ((BPT)), Roc Oil ((ROC)), and Horizon Oil ((HZN)), with UBS dropping its call on all of these stock from Buy to Hold on the view investors will remain cautious on LNG exposed stocks given the large cost blowouts in 2012. The broker also downgraded Tox Free Solutions ((TOX)) following a strong rally in the share price, although UBS' expectations remain for a strong year ahead, with growth firmly supported by last year's Dolomatrix acquisition.

BA-Merrill Lynch downgraded a couple of Bs last week, those being BHP Billiton ((BHP)) and Bluescope ((BSL)). The broker's view on BHP is simply that the recent run in the share price has made shares not only too expensive, but over-owned as well. Macquarie downgraded BHP last week on the belief the stock will underperform during the sector rally that it expects. The two downgrades have chipped away at sentiment for BHP stock, and while still marginally positive, it is far less so than it started the year. Meanwhile, the downgrade on Bluescope was made on the broker's expectation of a catalyst free 1H, the high AUD, low spreads and generally weak domestic demand. Three Buys and one Hold mean the stock retains quite a positive sentiment skew in the database.

The broker also downgraded its call on Bradken ((BKN)), as did JP Morgan, with both cutting from Buy on valuation grounds. BA-ML went all the way down to Sell, saying improving macro sentiment and metals prices are unlikely to deliver the higher earnings/valuation needed over the medium term. While the stock remains in positive sentiment territory, the two downgrades do make a dent, with three Buys, three Holds and one Sell now on record.

JP Morgan trimmed Boart Longyear ((BLY)) to Sell from Hold on the view current macro economic uncertainty will weigh on the share price, as miners remain conservative in their exploration capex. Four Sells, two Buys and two Holds leave the stock well in negative sentiment territory.

Challenger ((CGF)) picked up a blemish on its near perfect scorecard, with JP Morgan dropping from Buy to Hold following the recent share price rally. The stock remains positively regarded in the database, with five Buys and two Holds on offer. Meanwhile, Citi dropped Flight Centre ((FLT)) to Hold on slowing departures trends, which has the broker expecting far less chance of any sort of material earnings surprises from here.

Incitec Pivot ((IPL)) had to wear two downgrades, from Hold to Sell by Citi and from Buy to Hold by CIMB. Citi believes an underlying negative trend in the company's end markets is emerging and this will outweigh any of the upside, while CIMB notes the share price has run 23% over the past six months and now sits just shy of its revised target. Sentiment for the stock nonetheless retains a positive skew, with three Holds and one Sell outweighed by four Buy calls.

CIMB and BA-ML combined in a double downgrade for UGL ((UGL)), with the former going from Buy to Hold and the latter dropping from Hold to Sell. BA-ML's issue is a negative view on the FY13-14 earnings outlook given a weak domestic macro outlook and longer term concerns about the push into property services. CIMB also cited problems with the outlook. The downgrades leave the stock at a flat neutral as far as sentiment goes.

Telstra ((TLS)) was cut to Sell from Neutral by CIMB on a very stretched looking valuation, which pulls the stock a little further into negative sentiment territory. Yancoal ((YAL)) received the same treatment from Credit Suisse, also cut to Sell from Hold on high cost production, high debt levels, limited liquidity and a dominant exposure to weaker met coal markets. Sentiment is also firmly in negative territory.

The last two we look at are both downgrades from JP Morgan. Senex Energy ((SXY)) is dropped to Neutral from Buy after a run in the share price, while Wesfarmers ((WES)) is cut to Sell from Neutral on the exact same reason. With UBS downgrading to Hold last week, the latter stock has moved firmly into negative sentiment territory, with three Sells, four Holds and just one Buy recorded.

There were a few significant jumps in target share prices recorded last week as well. Bluescope's target jumped nearly 40% and Technology One ((TNE)) up more than 11%. Both were due to positive revisions by BA-ML, with the latter up on a strong product and sales pipeline. Also, Fortescue ((FMG)) saw its consensus target lifted by 10% as broker's look to adjust for the recent spike in iron ore prices.

The run of sector reviews on the back of new commodity prices, FX assumptions, macro outlooks etc. have played havoc with earnings forecasts across the market. The changes are outlined in the below tables and are otherwise too numerous to address on a point by point basis. But do have a look, with a click on the respective stock codes taking you to relevant broker commentary.

Total Recommendations Recommendation Changes

Broker Recommendation Breakup

Broker Rating Order Company Old Rating New Rating Broker Upgrade 1 BANK OF QUEENSLAND LIMITED Neutral Buy BA-Merrill Lynch 2 BILLABONG INTERNATIONAL LIMITED Neutral Buy JP Morgan 3 BILLABONG INTERNATIONAL LIMITED Sell Neutral Credit Suisse 4 BORAL LIMITED Neutral Buy Credit Suisse 5 BORAL LIMITED Neutral Buy Deutsche Bank 6 COCKATOO COAL LIMITED Neutral Buy Credit Suisse 7 COMMONWEALTH PROPERTY OFFICE FUND Sell Neutral JP Morgan 8 CROWN LIMITED Neutral Buy Credit Suisse 9 GINDALBIE METALS LTD Sell Buy BA-Merrill Lynch 10 GRANGE RESOURCES LIMITED Sell Buy BA-Merrill Lynch 11 JAMES HARDIE INDUSTRIES N.V. Sell Neutral JP Morgan 12 MESOBLAST LIMITED Neutral Buy Credit Suisse 13 OZ MINERALS LIMITED Neutral Buy JP Morgan 14 TATTS GROUP LIMITED Sell Neutral Credit Suisse Downgrade 15 ADELAIDE BRIGHTON LIMITED Neutral Sell BA-Merrill Lynch 16 AUSTRALAND PROPERTY GROUP Neutral Sell JP Morgan 17 BEACH ENERGY LIMITED Buy Neutral UBS 18 BHP BILLITON LIMITED Neutral Sell BA-Merrill Lynch 19 BLUESCOPE STEEL LIMITED Buy Neutral BA-Merrill Lynch 20 BOART LONGYEAR LIMITED Neutral Sell JP Morgan 21 BORAL LIMITED Neutral Sell CIMB Securities 22 BORAL LIMITED Neutral Sell JP Morgan 23 BRADKEN LIMITED Buy Sell BA-Merrill Lynch 24 BRADKEN LIMITED Buy Neutral Credit Suisse 25 CHALLENGER LIMITED Buy Neutral JP Morgan 26 FLETCHER BUILDING LIMITED Neutral Sell JP Morgan 27 FLIGHT CENTRE LIMITED Buy Neutral Citi 28 HORIZON OIL LIMITED Buy Neutral UBS 29 INCITEC PIVOT LIMITED Buy Neutral CIMB Securities 30 INCITEC PIVOT LIMITED Neutral Sell Citi 31 INVESTA OFFICE FUND Neutral Sell JP Morgan 32 ROC OIL COMPANY LIMITED Buy Neutral UBS 33 SENEX ENERGY LIMITED Buy Neutral JP Morgan 34 TELSTRA CORPORATION LIMITED Neutral Sell CIMB Securities 35 TOX FREE SOLUTIONS LIMITED Buy Neutral UBS 36 UGL LIMITED Buy Neutral CIMB Securities 37 UGL LIMITED Neutral Sell BA-Merrill Lynch 38 WESFARMERS LIMITED Neutral Sell JP Morgan 39 WOODSIDE PETROLEUM LIMITED Buy Neutral UBS 40 YANCOAL AUSTRALIA LIMITED Neutral Sell Credit Suisse Recommendation Positive Change Covered by > 2 Brokers Order Symbol Previous Rating New Rating Change Recs 1 MSB 25.0% 50.0% 25.0% 4 2 LLC 50.0% 75.0% 25.0% 8 3 TNE 75.0% 100.0% 25.0% 3 4 AAD 40.0% 60.0% 20.0% 5 5 LYC 20.0% 40.0% 20.0% 5 6 PMV 33.0% 50.0% 17.0% 6 7 EVN 67.0% 83.0% 16.0% 6 8 CFX 14.0% 29.0% 15.0% 7 9 AMP 25.0% 38.0% 13.0% 8 10 BOQ 25.0% 38.0% 13.0% 8 Negative Change Covered by > 2 Brokers Order Symbol Previous Rating New Rating Change Recs 1 BKN 71.0% 29.0% - 42.0% 7 2 TOX 67.0% 33.0% - 34.0% 3 3 MBN 100.0% 67.0% - 33.0% 3 4 AGI 100.0% 67.0% - 33.0% 3 5 WSA 86.0% 57.0% - 29.0% 7 6 BSL 100.0% 75.0% - 25.0% 4 7 HZN 100.0% 75.0% - 25.0% 4 8 FMG 63.0% 38.0% - 25.0% 8 9 BWP - 25.0% - 50.0% - 25.0% 4 10 IPL 63.0% 38.0% - 25.0% 8 Target Price Positive Change Covered by > 2 Brokers Order Symbol Previous Target New Target Change Recs 1 BSL 2.880 4.013 39.34% 4 2 TNE 1.415 1.577 11.45% 3 3 FMG 4.500 4.950 10.00% 8 4 CWN 10.524 11.349 7.84% 8 5 MBN 0.683 0.717 4.98% 3 6 AAD 1.446 1.510 4.43% 5 7 PMV 6.085 6.350 4.35% 6 8 IGO 4.548 4.702 3.39% 6 9 LLC 9.495 9.778 2.98% 8 10 HZN 0.480 0.493 2.71% 4 Negative Change Covered by > 2 Brokers Order Symbol Previous Target New Target Change Recs 1 YAL 1.306 1.276 - 2.30% 5 2 BKN 6.613 6.499 - 1.72% 7 3 WSA 5.093 5.021 - 1.41% 7 4 IPL 3.379 3.341 - 1.12% 8 5 CGF 4.330 4.286 - 1.02% 7 6 EVN 1.997 1.985 - 0.60% 6 7 WPL 40.025 39.826 - 0.50% 8 Earning Forecast Positive Change Covered by > 2 Brokers Order Symbol Previous EF New EF Change Recs 1 APN 0.371 13.838 3629.92% 8 2 MQA 0.683 8.550 1151.83% 6 3 OGC 6.027 41.647 591.01% 4 4 AQG 44.372 65.969 48.67% 8 5 PNA 27.392 37.113 35.49% 8 6 QBE 84.164 110.036 30.74% 8 7 FMG 32.729 41.550 26.95% 8 8 ALL 16.275 19.563 20.20% 8 9 AAX 32.960 39.160 18.81% 5 10 RIO 472.476 538.005 13.87% 8 Negative Change Covered by > 2 Brokers Order Symbol Previous EF New EF Change Recs 1 BSL 2.243 0.067 - 97.01% 4 2 YAL 53.620 5.532 - 89.68% 5 3 TAP 1.925 0.650 - 66.23% 4 4 ROC 13.263 6.383 - 51.87% 4 5 OZL 50.550 31.275 - 38.13% 8 6 BLY 23.134 16.145 - 30.21% 8 7 TCL 16.414 12.157 - 25.94% 7 8 WHC 2.214 1.757 - 20.64% 7 9 ILU 92.125 75.963 - 17.54% 8 10 STO 63.236 58.398 - 7.65% 8 Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story

contains unashamedly positive feedback on the service provided.

Tax Issues Fog Sydney Airport

-Lack of clarity until tax resolved -Traffic growth solid -Stock still attractive

By Eva Brocklehurst

Sydney Airport ((SYD)) is unlikely to find clear air until its tax issues are resolved. According to CIMB this will overhang the stock in FY13 even though the outlook for traffic growth is solid. CIMB estimates the worst case scenario could cost the company up to 7c per share in annual cash flow. Other than that, forecasts are holding up and CIMB has kept a Hold rating with a price target of $3.47. Macquarie believes the share price has already factored in the potential amended tax assessment and also maintains a Hold rating. Macquarie, however, finds domestic growth below expectations. The broker said growth of 4.8% for the month of December appears a little disappointing, given it was previously weak as well. Total traffic grew 5.2% in December with international up 5.8%. Macquarie notes scheduling data suggests capacity growth is likely to drop sharply in the first quarter of this year, with some rebound in the second, back to longer term trend levels of 3-4%. This broker is slightly more optimistic around the dividend in 2013 compared with consensus, because of the benefits flowing from car parking and retailing. Moreover, Macquarie does not expect any amended tax assessment to impact the 2013 dividend policy; rather the components of the dividend are what are likely to be affected. CIMB notes the impact of the tax assessment ultimately depends on how SYD can adjust its operating structure to avoid cash drain going forward. The analysts say the quantum of liability is the key, should the ATO issue an assessment in the case of the deductibility of interest on Redeemable Preference Shares. CIMB calculates that, if upheld, it could cost SYD around 2c per share of operating cash flow, per annum. This would take 5% off valuation, to $3.29. Assuming a worst case where interest on all RPS is assessed as taxable, then CIMB sees a 6-7c impact and an 18% impact on valuation, to $2.84. For the worst-case scenario, assuming SYD restructures to manage the issue by FY16, CIMB's valuation comes back to $3.18. Despite the tax gyrations, Macquarie sees SYD as increasingly attractive at current pricing, noting it has leverage to any improvement in the economy through better passenger volumes. While these two brokers reiterated a Hold recommendation after the traffic statistics were released, earlier this month Deutsche Bank downgraded the stock to Hold from Buy on the FNArena database, claiming risks of an adverse ruling on tax created too many uncertainties for the time being. The stock has four Hold ratings, the fourth being UBS. There are two Sell ratings - BA-ML and JP Morgan. Target price ranges from $3.10 (BA-ML) to $3.47 (CIMB).

Question Of Sustainability Dulls Alacer Gold

-Production solid in Dec quarter -Questions remain over Copler plans -Divestment still probable

By Eva Brocklehurst

Mid tier gold producer Alacer Gold ((AQG)) delivered a firm finish to a challenging year. Nevertheless, brokers are divided over what to focus on for this stock. There are concerns around life-of-mine recoveries and the sustainability of production initiatives at Copler, according to JP Morgan. This broker is sticking with a Hold recommendation and doesn't expect that to change until the release of 2013 guidance and a revised sulphide study, in conjunction with Q412 cost data. Alacer produced 113,900 ounces of gold in the December quarter, up 14.9% on the prior corresponding quarter and 1.5% above JP Morgan's estimate. This was driven by a significant grade bounce at the Copler (Turkey) and Higginsville (Australia) mines, while South Kalgoorlie (Australia) was broadly flat. Unit costs will be disclosed in March, but JP Morgan expects cash costs to show improvement on the US$747/oz reported in September quarter 2012.

Construction of an oxide mill (under investigation) should significantly boost production potential and reliability at Copler, the broker maintains. The value proposition, however, will be determined by the additional capex required for the project against remaining oxide reserves. At Higginsville, JP Morgan notes the company has reported a rainfall event restricted the haulage of ore from Chalice to the processing plant which has lowered the tonnes treated. However, the broker notes the drop is also likely to have been affected by the completion of open pit mining activities and the run-down of stockpiles in the September quarter.

BA-ML and Deutsche Bank also revisited the stock after the production report and retained their recommendations. On the FNArena database BA-ML has a Sell recommendation while Deutsche considers Alacer a Buy. The disparity can be put down to BA-ML's focus on the potential for costs to rise while Deutsche sees solid production continuing. There are five Buy ratings, two Hold and one Sell on the database. The target pricing is a wide $4.55 (BA-ML) to $8.25 (Credit Suisse). This may be reflected in the comment from Macquarie (on FNArena's database in December) that there is a growing discrepancy between the share price and the value of the company's assets and this may result in a divestment of Australian assets, partial or otherwise. UBS has lowered volume forecasts for 2013 by 3% and now estimates attributable production of 412,00 ozs at cash costs of US$648/oz. UBS retains a Buy rating based on valuation but accepts that clarity is required on a number of issues, including Copler expansion plans and capex, 2013 production and the ongoing review of Australian assets. UBS believes there is a higher probability that Alacer will ultimately divest its 49% stake in the Frog's Leg mine (Australia) to its JV partner. Hence valuation has been trimmed by 2% and UBS' price target, based on net present value, was lowered to $6.80.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Western Areas Frustrated By Nickel Price

-Solid quarterly production -Well managed -High quality mines -Nickel price the stumbling block

By Eva Brocklehurst

Nickel miner Western Areas ((WSA)) hit all the right notes with the broking community after its solid December quarter production results and evidence of being well managed. However, the nickel price is out of the company's control and on that hangs the tale. BA-Merrill Lynch notes the company is on track to beat its guidance in terms of production for FY13 but cash costs are rising and will be a concern going forward. Underground mining at Spotted Quoll will ramp up but weak prices translate to weak cash flow. This is despite WSA being in the lowest quartile on the global cost curve, BA-ML notes. The broker says WSA is fairly valued at current prices and, unless there are fundamental improvements in the nickel price, the key driver of long term value will be further exploration success. The broker keeps a Hold rating but notes, if WSA is successful in achieving its production targets, it can generate strong returns given its mines are higher grade, hence lower cost, compared with its peers. Nickel-in-concentrate production was up 9% in the December quarter at 6,722t versus BA-ML's forecast of 6,142t and JP Morgan's forecast of 6,100t. JP Morgan still maintains WSA as its preferred nickel play and has a Buy recommendation, noting the company is still generating cash in a subdued pricing environment. As the broker expected, WSA declared a maiden reserve for Lounge Lizard, helping boost Flying Fox mine reserves by 49%. Whilst the reserve increase was expected, JP Morgan believes deposit size remains open and should grow further over time. UBS calls WSA Australia's default nickel stock and maintains a Buy recommendation. The broker has lowered its FY13 earnings estimates by 34% from a combination of pushing through mark-to-market commodity prices and the higher costs implied from the December quarter. From a production perspective, first half output of 1.45m tonnes of nickel-in-ore implies that WSA is on track to beat its full year guidance. UBS believes the company's assets could ultimately provide strategic value to a global nickel producer. On the positive side too, the broker contends that the lack of significant sulphide discoveries and reliance on high-cost, underperforming laterite deposits will eventually lead to a shortfall of quality nickel concentrates around the globe. Other brokers covering the stock on FNArena's database have echoed these sentiments with Macquarie keeping WSA as its key pick in the sector. Macquarie believes the Forrestania asset base is outstanding and WSA a reliable producer. Nevertheless, the nickel price dominates the outlook. Deutsche Bank likes the stock but cites the nickel price, hence its Hold call remains in place. Citi also finds the nickel price a problem but sticks with a Buy recommendation. All-in-all the recommendations on the FNArena database stand at four Buys and three Holds. The price target ranges from $4.29 (Deutsche) to $5.60 (Citi). So where to for the nickel price? Citi has lowered its nickel price forecasts for 2013 to US$8.30/lb (current spot US$7.90) and this has driven downgrades to earnings estimates for WSA of 17.3% for the year. Deutsche is also bearish on the short-medium term nickel price, which impacts its valuation of the stock. This broker's discounted cash flow valuation is based on a long-term nickel price of US$8.17/lb.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

BHP, Rio And Copper

- BHP and Rio growing increasingly reliant on copper - Rio has the edge over BHP? - Iron ore pricing forecast

By Andrew Nelson

With iron ore expected to sooner or later (probably sooner) retreat from current price levels, copper is becoming an increasingly important driver for both BHP Billiton ((BHP)) and Rio Tinto ((RIO)). Good news for both, as analysts at Macquarie like copper about the best of all of the base metals.

The broker notes that copper currently accounts for 15% of BHP's valuation and 22% of earnings, while for Rio the number sits at around 20% of valuation and 35% of earnings. Importantly, copper remains a higher margin business for both.

Macquarie notes BHP's copper portfolio boasts better grades and less underground production. Annual copper production growth is expected to remain over 10% at least until the end of FY15, with much of the upside coming from Escondida. However, the longer term picture is a bit different given the maturity of BHP's assets, the indefinite deferral of Olympic Dam and a reluctance to take on major new projects given the current environment.

On the other hand, the broker gives a bit of credence to Rio's claims it has the best copper assets in the business, citing low costs and the quality of growth options. Despite falling grades and rising underground production, operating costs remain low because of by-product credits.

Thus while BHP is a much larger copper producer, Macquarie thinks Rio's copper portfolio is a bit better, as while BHP may have the larger mines, higher grades and more open pit operations, Rio rakes in significant benefits from these aforementioned by-product credits, while a higher level of underground expertise means Rio's copper work is not only higher margin, but enjoys more momentum in its longer term growth options.

This is why the broker expects copper to remain a driver of revenue for Rio, while it otherwise thinks BHP's copper contribution will fall over the rest of the decade.

Yet while Rio may be edging ahead in the copper game, it is having some issues with met coal. At least on the supply side, with stocks becoming increasingly difficult to get to market. All you have to do is look at the $3bn write-down on the Mozambique coal operation to see exactly how tough it is.

Over the past couple of years, demand, or the lack thereof, was the big problem. But with 2013 looking like it will be ex-growth on 2010 numbers, Macquarie sees supply becoming more of an issue. And with premium stock likely to become harder to come by, the broker sees hard coking coal trading at around a US$200/t sustainable price.

The broker reckons growing the supply side will be increasingly difficult, noting 50% of seaborne trade already comes from Queensland, although floods, industrial action and falling productivity will limit any uplift from the state. Macquarie sees this overreliance on Australian coal only getting worse in the coming years. In fact, on the broker's numbers, Australia is expected to supply 80% of seaborne export growth through 2017.

And speaking of iron ore…. Analysts from UBS expect the roller coaster ride to continue a little longer and then for prices to settle down in a US$130-US$160/t CFR China price range. The forecast assumes that short-term activity in China remains quiet given slow progress in the property and infrastructure sectors, both being key drivers of China's steel demand.

The stocks with leverage are Rio and Fortescue ((FMG)), while the broker advises to stay away from stocks whose value depends heavily on undeveloped projects.

ind out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story

contains unashamedly positive feedback on the service provided.

Healthcare Is Expensive, May Be Time For Profits

-Healthcare sector expensive -Need to view stocks individually -Disparity with public health exposure

By Eva Brocklehurst

The healthcare sector has become expensive. In Deutsche Bank's view there is limited earnings risk for the larger healthcare companies in FY13, as strong demand from the ageing population and relatively stable funding underpin the attractive earnings outlook. CIMB has a Sell ticket on the larger capitalised stocks but emphasises the importance of looking at each individually rather than taking a broad sector view. In this broker's view, it may be time to take profits. Credit Suisse finds a disparity between the large healthcare companies unimpeded by government competition, such as CSL ((CSL)), ResMed ((RMD)) and Cochlear ((COH)) and those subject to competition by the public health sector in Australia and overseas, such as Ramsay Health Care ((RHC)) Sonic Healthcare ((SHL)) and Primary Health Care ((PRY)). The broker notes, while the market is valuing most stocks on relatively similar levels, there is a large distinction in unleveraged return on equity (ROE). Credit Suisse explains this as RHC, SHL and PRY, being subject to fewer competitive pressures and with lower risk operations, can gear themselves to a higher level than their higher quality peers. CIMB continues to view longer-term sector drivers favourably, as population growth, demographic shift in population age and innovation will underpin growth. However, near-term challenges remain, with slowing earnings growth and stretched valuations. There is also the potential for ructions if there is a change in the Australian government later in the year, given potential changes to private health insurance and recurring pathology funding negotiations. In the US there are weak utilisation rates and structural reimbursement changes. CIMB sees upside for PRY and downside for RHC and COH. The broker sees a defensive growth theme holding throughout the first half, with sentiment shifting toward capital appreciation and earnings momentum in the second half limiting strong sector gains. Deutsche favours PRY, given its domestic focus, strong earnings growth profile and relatively attractive valuation metrics. Credit Suisse finds PRY should meet market expectations and has a Hold recommendation. In some ways the broker finds the stock overvalued but admits there's no near term catalyst that would result in a downgrade in rating. PRY is also a favourite of CIMB, hence a move to a Buy rating on improving profitability. Meanwhile, SHL's funding pressures cloud its outlook, Deutschesuggests, and growth will likely slow in in the second half due to funding cuts across all major regions. Credit Suisse sees the stock as overvalued relative to ASX200 on price/earnings measures. On the FNArena database SHL has three Buy and five Hold ratings and its price target is comparatively narrow, from $13.45 to $14.55. For CSL attractive growth is fully priced and, given the recent guidance upgrade, Deutsche has little doubt it will deliver a remarkable first half result. Credit Suisse notes CSL presents as materially undervalued proposition against the ASX200 and retains a Buy recommendation. CIMB also finds upside potential for this stock. On the FNArena database there are five Buy ratings, two Hold and one Sell (Citi). Last month Citi noted that good news was well priced in, before the potential has been realised. The target range is from $45.33 (CIMB) to $62 (Macquarie). RHC has attractive growth and potential corporate activity reflected in a premium price, according to Deutsche, but the broker is confident the group can continue to deliver strong earnings growth for the foreseeable future. Credit Suisse has a Hold on the stock while CIMB sees it, along with CSL, offering the most earnings certainty. Nevertheless, the broker believes it's probably time to take profits and has a Sell recommendation. Others on the FNArena database with a Sell recommendation include UBS and Citi. RMD may surprise on the upside, according to Credit Suisse, in company with CSL and RHC, because of favourable industry and market dynamics. The broker finds a case for being long RHC and retains a Hold recommendation. Deutsche finds risk from competitive pressure and funding reform weighing on the outlook but continues to recommend holding the stock. The one most at risk with a first half/second half skew in earnings is Ansell ((ANN)), according to CIMB. Deutsche also expects tough economic conditions will weigh on the first half and relying on the second half to achieve guidance may test investor confidence. ANN is a mixed bag on the FNArena database with three Buys, three Holds and one Sell. Finally, COH is the wildcard stock in the sector, given a lack of earnings visibility, CIMB maintains. Deutsche says it looks overvalued and first half earnings will likely contract due to falling upgrade revenues and a smaller FX hedge gain. Credit Suisse sees some risks with COH but believes it is nearing undervalued compared with ASX200 stocks and notes it is cheaper than other healthcare stocks, bar CSL.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Could Telstra Raise Its Dividend?

-Telstra looks solid -Potential for increased dividend -NBN value should hold up

By Eva Brocklehurst

Dominant Australian telco Telstra ((TLS)) remains on solid ground in 2013 and should retain its value position with ergard to the NBN (national broadband network) this year, according to most brokers. JP Morgan notes, even if Telstra's share of NBN retail broadband services (household and small business) falls to a forecast 32.5%, compared with an earlier 46%, it does little to move valuations. A 1% shift makes a difference of 2c. So what excites brokers going forward? It's the prospect of increased dividend payments. Macquarie is most upbeat on the company's ability to pay increased dividends going forward, expecting increases are likely from FY14. The broker believes Telstra will be strongly generating cash over the medium term and franking credits are not a barrier to increasing dividend levels. Furthermore, on the back of increasing the ordinary dividend to 30c (from 28c in FY13), Macquarie finds scope for a 2c special dividend, rising to 8c by FY17, assuming little change to the NBN deal structure. Macquarie has raised its target price to $4.30, topping the FNArena database range, to reflect both market and stock-specific factors. Ahead of the first half result, UBS is also of the belief that dividends can increase in FY14 and has marked its forecast up to 30c, with 32c in FY15. UBS notes Telstra has bounded off a low in November 2010 and now trades at a 12% premium to the long-held $4.00 discounted cash flow value. Therefore, the broker finds further share price appreciation is limited in the near term. A more rational pricing environment, market share momentum, cost out and 4G upside have now been priced in. Hence, a Hold rating is maintained. Meanwhile, CIMB sees a potential change in government as the key issue for 2013. This could create some uncertainty around forecast payments from the NBN, although the broker does not believe any change would provide a significant risk to the value of Telstra's $11bn NBN deal. CIMB has raised its price target to $4.15 (from $3.85) and sees investor demand for yield supporting the stock price in the near term. Nevertheless, the broker has moved to a Sell rating from Hold as, on an FY13 price/earnings ratio of 15 times there is limited valuation support at these levels. On the story of dividends, CIMB expect a more modest improvement, up to 29c in FY14 and 30c in FY15, calculating there is sufficient cash flow and earnings per share (ie franking credits) to support this. JP Morgan is at the softer end of the scale, believing many industry observers over-estimating the returns that will be achievable on NBN products because they are used to looking at capital-intensive businesses with oligopoly characteristics. Moreover, this broker says forecasts for earnings margins of 20-30% seem unrealistic given the low capital intensity of NBN participation. JP Morgan is aware that investors may be asking whether buying Telstra for yield could prove to be a mistake if fixed line returns are re-based radically. While being conservative about returns, the broker thinks the valuation can withstand this, although notes that the share price has now drifted above the broker's June 2013 price target of $3.97. As for the dividend, JP Morgan is not going out on any limb, simply noting that the 28c dividend would be covered by free cash flow until FY22 and by earnings until FY21. Once NBN disconnection payments run down, free cash flow falls sharply. The broker admits this makes Telstra an unusual investment, as it is effectively selling part of its business (fixed line customers), returning capital to shareholders and ultimately growing off a much lower earnings base. One challenge this poses, according to JP Morgan, is that valuation multiples, including yield, do not work well for Telstra, as they imply that the cash flow is ongoing. The broker is sticking with a discounted cash flow valuation. Overall, Telstra serves up six Hold recommendations on the FNArena database and two Sell (CIMB and BA-ML). The target price ranges from $3.50 (BA-ML) to $4.30 (Macquarie). According to FNArena's Stock Analysis, on current FY13 forecasts and current share price, Telstra is offering a fully-franked yield of 6.2%, rising to 6.4% on FY14 forecasts.

Buru Energy Packs Potential in Canning Basin

- Canning Basin highly prospective - Buru a first mover - Macquarie gets on board

By Eva Brocklehurst

Mid cap energy stock, Buru Energy ((BRU)), has entered Macquarie's sights as it strives to make a name in Western Australia's Canning Basin. Macquarie has initiated coverage on the stock with a $3 price target, offering 38% upside to the current share price. Buru has around 17 million acres in the onshore Canning Basin, in the north west of the state, which to date has only been lightly explored. The company has adopted a systematic approach to securing what it sees as the most prospective hydrocarbon acreage, providing it with a first mover advantage. JP Morgan believes the Canning Basin is one of the most prospective in Australia. Buru Energy is its top ex-100 pick as a pure play in both oil and tight wet gas.The broker says Buru displays the greatest potential returns with upside to spot of 91%, hence a price target of $4.42 and Buy recommendation. Events on JP Morgan's 2013 watch list include extended production testing at Ungani, which is progressing towards a full field development, and flow testing of Ungani North-1 oil and gas columns, possibly by the end of the first half. Also, the Yulleroo-4 well is due to spud shortly and will test the thesis for the Yulleroo tight gas resource.

Over the last three years Buru has recorded discoveries at Ungani and Valhalla and secured a strategic funding partner in Mitsubishi. According to Macquarie, the company is targeting material production growth over the medium term, with a vision to supply around 20% of the Western Australian domestic gas market and almost its entire liquids demand. The broker is mindful that, given the isolation of the Canning Basin and limited existing infrastructure, commercialisation of gas resources will require Buru to develop its own route to market and this could dilute value through transport tariffs or the need to fund infrastructure. With the Ungani trend only mapped on limited 2D seismic, considerable uncertainty also remains regarding recoverable volumes at both the Ungani oil field and untested prospects in the region. However, Macquarie sees upside potential for core Ungani reserves as a greater understanding of the structural boundaries is gained. Successful production tests from multiple wells will be required to confirm the commerciality of this play. Buru is near the high end of the risk spectrum of mid-cap energy stocks under Macquarie's coverage. However, if the 20mmbbl upside case at Ungani (through a 3D seismic program) can be proven, Ungani North can be tied in as an additional discovery and further exploration success occurs at Yakka Munga and Jackaroo this year, the broker's Net Asset Value could rise by 27% to $4.05 a share from the current $3.19. Successful flow testing at Valhalla? Macquarie envisages the NAV would rise a further 5% to $4.27.

BHP Can Produce, But Can It Profit?

- BHP production in line with expectations - Potential to exceed guidance - Prices nevertheless a drag - Cost reduction is vital

By Greg Peel

Having now shelved its more quixotic mega-project and expansion plans, BHP Billiton ((BHP)) is now back to doing what it does best – simply pulling stuff out of the ground. Over the December quarter the company was able to do this adeptly, largely matching analyst expectations of production levels and maintaining 2013 production guidance. Unusually however, no mention was made by management on the release of the production report regarding cost, pricing or sales volume – only amounts of "stuff". This surprised Morgan Stanley, but as is the case with other brokers, MS expects BHP is currently working on cost-out plans which will be revealed at the February 20 full-year earnings release.

Focus for BHP production is on the "big three" of petroleum, iron ore and copper, with the "little three" of coal (met and thermal), aluminium and nickel making up the numbers.

All up, petroleum division production was down 2% from the September quarter, but this is mostly due to weaker gas production in the legacy Bass Strait field. The biggest offset was a 4% increase in US onshore production (land-based shale as opposed to Gulf of Mexico crude), about which analysts are happy. BHP's shale operations have already taken a big write-down hit, and five minutes after getting into shale gas the company was forced to escape the glut by shifting focus to more lucrative liquid shale drilling. The good news is the liquids ratio has improved from 1.6% to 17.6% over the quarter.

The bad news is that a total of US$2.1bn was spent on shale drilling in the quarter when the full FY13 budget is only US$4bn. Deutsche Bank assumes this implies a now higher rig count but BA-Merrill Lynch suggests BHP's onshore US energy assets are running at "break even at best". Note that US shale oil becomes West Texas Intermediate, the price of which is heavily impacted by a production glut, lack of storage space and the (as yet) inability to ship crude from Oklahoma to the coast at a viable cost. Hence WTI is currently trading some US$17 below that of global export oils such as Brent, Tapis and even Gulf of Mexico crude. Meanwhile, US natural gas prices have still not recovered from the GFC, with shale-driven abundance again an issue.

At least, as Goldman Sachs notes, the petroleum division provided a positive surprise in that there were no negative surprises, which is usually the case.

The picture for iron ore is a bit rosier, and not just because of the Chinese spot price rebound from US$86/t last year to US$147/t today (albeit having been around US$10 higher in the new year). Pilbara iron ore production is running on track with guidance, and the last piece of infrastructure which will take BHP's production and export capacity to 220Mtpa – a fifth rail car dumper at Finucane Island – is now in place. It's now up to the mines to actually produce at that rate, and this won't happen until at least the March quarter FY14 when the new Jimblebar mine starts up. In the meantime, management has guided to 183Mtpa for FY13 although with Jimblebar apparently running three months ahead of schedule, Deutsche Bank is among those brokers tipping the potential for guidance to be exceeded in the next two years.

Indeed, UBS expects BHP to "sweat" the existing mines this year to try to utilise the added capacity now in place and, as suggested, exceed targets.

The picture is also a good one for BHP's copper operations, at least at Escondida. Other copper mines, such as Olympic Dam, have suffered from lower grades but over in Chile, an 8% increase in copper production in the quarter reflects the highest grades in two years, Macquarie notes. Escondida is thus on track to meet guidance of a 20% production increase over FY13, with new capacity due to come on line.

There was also good news for Queensland metallurgical coal (used for iron ore production). After suffering through strikes and a Big Wet in the same quarter last year, met coal production is back to full capacity and the hint from management is that the second half will see an improvement on the first. That's the good news.

The bad news is highlighted by the Merrills analysts who warn, “be aware that the unit is NOT making money at the moment”.

Which brings us to thermal coal (used for power generation), which is more of a sad and sorry tale. Unplanned outages meant production levels were down 11%, which can be reversed one assumes, but the coal being produced is now at such a high ash content that it attracts a 10% discount, UBS notes, to a price which is already in the doldrums.

And then there's the aluminium and nickel divisions. Suffice to say that, with prices for both metals remaining depressed, UBS and Macquarie are among those expecting a value write-down ahead while CIMB goes a step further to suggest BHP will be looking to divest of these divisions. Merrills suggests investors “watch this space”.

So the bottom line is that BHP's production is looking healthy, and has the potential to exceed guidance. The problem is, prices obtained for such production are not setting the world on fire and with global economic growth to remain net sluggish at best in the nearer term, no one much expects any marked improvement in 2013. Depending on where brokers had previously set their estimates, earnings forecasts have been rejigged either up or down in small moves, in some cases marking to fresh estimates for commodity prices and the Aussie dollar.

Citi's forecasts, for example, are sitting 10% below consensus and the analysts note that there would be little change in FY14 were they to mark to current spot pricing. On that basis, Citi believes consensus estimates are open to downside risk. The UBS analysts sum up the general feeling by reminding, “We have said before that 2013 will be a year of self help for the miners, with price not expected to assist earnings, so cost out is key”.

JP Morgan agrees that reducing costs is “an important focus for the diversified miners at the moment”. The analysts note that while rival Rio Tinto ((RIO)) has now specifically targeted at least US$5bn in cost reductions over 2013-14, BHP has so far only guided to “flat” costs in FY13 without specifying an actual savings plan. As noted earlier, brokers are assuming all will be revealed in February. Meanwhile, JP Morgan notes that if BHP follows Rio's lead and targets 10% cost reductions over the longer term, this would represent about a US$4bn per year.

So is BHP a value bet for investors at this point?

Well, the first problem is that the stock price has rallied 23% from the July 2012 low and, according to Citi's numbers, is trading at forward price/earnings of 14x in FY14 and 12x in FY15 which is the upper end of the recent range, and with no commodity price rally on the cards. Indeed, it's all enough for both Citi and CIMB to now downgrade to Hold (or equivalent), joining JP Morgan and Macquarie. The latter is keen to wait for next month's results but is also looking for a further pullback in iron ore prices in the meantime. CIMB and JPM both specifically prefer Rio.

Goldman Sachs and Morgan Stanley nevertheless prefer BHP over Rio, while UBS and Deutsche are also maintaining their Buy ratings for BHP. Merrills is sticking to its Sell (Underperform) rating, which is not a recommendation one often sees for the Big Fella. Citi is not expecting any further capital management initiatives in the near term, outside the new progressive dividend policy, given net debt is not expected to decline until FY15.

Turning to FNArena's Stock Analysis, we note BHP now only boasts two Buys out of the eight brokers in the database, one Sell and a balance of Holds. An average price target of $38.41 offers 3.7% upside from the current price, while a 3.1% FY13 dividend yield is not to be sniffed at for a miner. By contrast, Rio boasts only one Hold, with everyone else on Buy. An average target of $77.60 suggests 17.1% upside, although the yield on offer is 2.5% in Rio's case.

In earnings terms, we note the FNArena database brokers are forecasting 12% earnings growth for BHP in FY14, compared to 40% for Rio (in 2013). Both forecasts are at present AUD/USD value.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Retailing Ain't Broke, Just Changing

-Retailing is changing, not broken -Traditional relationships are weaker -Online versus foot traffic well entrenched -How about a merger or two?

By Eva Brocklehurst

Retailing's business model ain't broke, according to several analysts. Hence some suggested "fixes" aren't going to... fix. JP Morgan simply sees the sector suffering because the once extremely strong relationship with disposable income and consumption has weakened. Macquarie says it's a volume thing. Morgan Stanley thinks there's opportunity for some very unexpected outcomes as the year progresses. JP Morgan finds the outlook for consumer stocks quite mixed but it's not just the bricks and mortar versus online story. There are cyclical and structural factors which are impacting, such as a renewed propensity among consumers to save (cyclical), an increased focus on buying "experiences" such as travel rather than goods (structural) and more international players wanting a slice of pie.

JP Morgan is Underweight in its position on consumer discretionary stocks, with consumer staples preferred on a sector relative basis. The analysts see reduced leverage to income growth for the retail sector, particularly listed discretionary retailers. International entrants also pose a threat, lifting the competitive bar for domestic bricks and mortar retailers. This year, JP Morgan sees themes such as value-focused consumers, a continuing shift online, with retailers needing a compelling and improving online offer, and increasing competition. Therefore, value-focused mass retailers with high traffic levels and/or customer insights are well positioned. Macquarie points out that clothing, footwear and accessories retailing is a large category within the sector but less visible because of the high percentage of unlisted ownership. Nevertheless, there is a perception that they, as well as the sector as a whole, are in distress. Business models are seen failing due to rising costs, new market entrants (competition) and disruptive new technologies (online, mobile). However, Macquarie says things are happening that contradict this. Australian retailers continue to have the highest earnings margins in the world in five of the six retail categories the analysts examined (discount department stores the exception). Furthermore, gross profit margins are rising or stable in most retail categories. For example, the analysts find that grocer gross profit margins have risen around 300 basis points since 2007. Interestingly, in Macquarie's view, so have speciality apparel retailer average gross profit margins. So, where is the negative perception coming from. It appears, in Macquarie's analysis, that it's mostly on seeing declining foot traffic in stores. ABS chain store volume data shows volumes declined in the apparel, footwear and accessories category by 3% per annum across FY10-12. However, retail volume growth has accelerated over the last 12 months to approximate growth in the consumer base. Hence, Macquarie does not expect large mass or mid-market apparel retailer failures and, where these occur, it will more likely reflect brand relevance and loyalty issues. Macquarie expects traditional retailing cycles will return but at a lower growth level. On the subject of major retailers -- department stores in particular -- Morgan Stanley speculates, as one of the broker's "potential surprises", about David Jones ((DJS)) and Myer ((MYR)) merging. Warming to this thesis Morgan Stanley says, collectively, tate broker consensus is overwhelmingly negative on these two: 75% of ratings are either Sell or Hold. So, both stock prices would react positively to news of a merger and the rationale has now never been greater. However, the broker says it's unlikely anyone is even pondering the thought. Other interesting "potential surprises" are Wesfarmers ((WES)) continuing to improve even after an impressive 2012 and maybe achieving a record share price as well as JB Hi-Fi ((JBH)) reducing its store count for the first time ever. Harvey Norman ((HVN)), viewed quite negatively by the market at present, could also surprise by reducing its consumer electronics footprint. However, Morgan Stanley suspects that company would rather raise capital and be the "last man standing" in the category as opposed to closing stores. Morgan Stanley sees the large property portfolio as a drag on HVN's balance sheet. Other quirky ones are Coca-Cola Amatil ((CCL)) delivering a flat beverage volumes in a dry and thirsty summer or discretionary retailers providing more earnings upgrades than supermarkets.

In terms of CCL, Australian beverage volumes have been in decline over much of the last two years and investors generally expect them to pick up with the hot, dry summer. However, Morgan Stanley sees scope for this dry-wet theory to be dumped on. Aggressive pricing strategy from Pepsi, competition and a growing avoidance by the health conscious of carbonated soft drinks underline that "surprise" potential. As for underperformance in discretionary retail, Morgan Stanley thinks investors have focused on the structural issues facing discretionary retail and not appreciated the cyclical element enough. Discretionary retailers are relatively cheaper, generate better dividend yields and arguably have more scope for earnings upgrades than the supermarkets. Online retail sales growth has exploded over the past few years. Morgan Stanley sees the consensus view that this growth will moderate being put to the surprise test, citing retailers aggressively improving online offerings with shopping online only beginning to hit the mainstream. Morgan Stanley also thinks wine sales could improve and exceed CPI for the first time in 10 years. Why is this a surprise? Many analysts still doubt the industry, coming out of a long period of oversupply, can obtain better prices from the consumer, given the brand fragmentation and consolidated retail structure in Australia.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Paladin As A Uranium Price Barometer

By Andrew Nelson

Last week Paladin ((PDN)) reported its quarterly results and while they were broadly well received, with production and sales levels strong, brokers remain universally concerned about the direction of the underlying uranium price, which has become the main driver to which broker recommendations are now pinned.

Examples: JP Morgan is at Hold and believes uranium prices will remain depressed over 2013. Says the broker “we do not believe Paladin can make positive cash flow at current spot uranium prices, and given the balance sheet leverage we do not expect the stock to re-rate unless uranium prices move higher.”

Deutsche Bank also believes Paladin’s growth profile remains one of the most attractive in the uranium industry and its long-term expectation for uranium beyond 2015 is positive given increasing Chinese demand and the re-start of Japanese reactors. However, the broker sits at Hold now because of short-medium term uranium spot price weakness.

UBS sits at Buy and guess what; the broker sees things moving in uranium’s favour during 2013. The broker’s hit list of good news includes the hope the newly elected Japanese government will get to work restarting those 48 idled reactors, the fact that there are 29 nuclear plants currently under construction in China, dwindling supply and stock levels given the lack of production incentive offered by current prices and increasing M&A activity in the sector.

Conversely, BA-Merrill Lynch sits at Sell and it is unsurprisingly not constructive on uranium prices at the moment. The broker has doubts about reactor restarts in Japan, saying “the fate of nuclear power in Japan’s energy future remains highly uncertain.” The broker reasons that even though the pro-nuclear Liberal Democratic Party will work to get nuclear energy built back up, a conclusion on all nuclear reactors will take up to three years, with restarts subject to local approval and public opinion which are expected to remain a major obstacle.

Today’s guest analysts from Raymond James maintain a Buy call on Paladin and are unsurprisingly positive on the outlook for uranium prices. The broker notes operational performance continues to improve, which not only increases the fundamental value of the stock, but also makes it increasingly attractive as a takeout target. As such, the broker remains bullish on the shares over the next 6-12 months.

To underscore the increasing focus of M&A activity in the space, Raymond James notes that last week’s takeout of Canada’s Fission Energy by Dennison Mines in an all-share deal worth roughly C$72m will do a good job in drawing the interest of majors such as Rio Tinto ((RIO)), Cameco, and maybe the Chinese. It’s important to keep in mind that of the nuclear capacity expected to come online over the next 20 years, the bulk of it will come from China.

That brings us, in a big circle, to the spot uranium market and what happened in it last week. Industry consultant TradeTech reports some very light activity, with just 400,000 pounds of U308 changing hands on four deals. Traders and intermediaries were both the buyers and sellers for the most part and price remained the main driver.

In fact, as prices rose last week, the gap between willing buyers and willing sellers widened, with TradeTech reporting that neither seemed all that willing to budge on price to get deals done. Hence, the light market activity. Still, the net result was a slight positive for sellers, with TradeTech’s WeeklyU308 Spot Price Indicator ending the week at US$42.50 per pound, up US$0.50 from the prior week’s value.

Meanwhile, the term market was devoid of any signs of life, with no new transactions or demand reported. TradeTech’s Mid-Term U308 Price Indicator remains fixed at US$48.00 per pound and the Long-Term Price Indicator stayed put at US$57.00.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story

contains unashamedly positive feedback on the service provided.

Congo And Cobalt Critical

By Richard (Rick Mills), Ahead of the Herd

As a general rule, the most successful man in life is the man who has the best information

What makes a metal critical:

The availability or lack of these elements can have major impacts on energy systems and significantly increased demand could strain supply. That could cause massive price increases or even unavailability and therefore discourage the use of new technologies Most of these critical elements are produced as byproducts in the production of other metals so ramping up production can be extremely difficult Relentless demand for high-tech consumer products in emerging countries Ongoing material research that is exploding uses for these critical metals Very low substitutability Virtually no recycling Because of the relative scarcity of critical metals their extraction often involves processing large amounts of materials which sometimes causes unacceptable environmental damage and, because critical metals are often a byproduct of the production of other metals, the timeline required for new production is dependent on the price of those other metals Critical metals also have a very high supply risk because a large share of the worldwide production comes mainly from a handful of countries The U.S. Department of Energy says materials used in four clean energy technologies: wind turbines, electric vehicles, solar cells and energy efficient lighting are critical now. The American Physical Society's Panel on Public Affairs and the Materials Research Society coined the term "energy critical element" to describe elements that are essential to one or more of the new energy-related technologies. The European Union commissioned a report that identified 14 materials critical to the EU. Only four metals or element groups made all three lists: Rare Earth Elements (REE), platinum group elements (PGE), lithium and cobalt.

Cobalt

Green initiatives have become a global focus point for many investors.

There can be absolutely no dispute that cobalt holds a critical role in the future green energy economy for its use in solar panels and in the blades and magnets for wind turbines and for its use in the rechargeable batteries used in electric vehicles and consumer electronics. Cobalt is also used in the high-speed, high-strength wear-resistant alloys that are used in aerospace and military technologies. Cobalt also has many industrial uses such as a catalyst in desulfurizing crude oil and in hydrogen generation oxidation. It is used in natural gas-to-liquid technology, orthopedics and life sciences.

Even though cobalt is one of the thirty most abundant elements in the earth's crust, it has an extremely low concentration, just 0.002 percent so it is rare to find it in economical standalone deposits.

“Identified world cobalt resources are about 15 million tons. The vast majority of these resources are in nickel-bearing laterite deposits, with most of the rest occurring in nickel-copper sulfide deposits hosted in mafic and ultramafic rocks in Australia, Canada, and Russia, and in the sedimentary copper deposits of Congo (Kinshasa) and Zambia.” United States Geological Society USGS

Approximately 48% of the world's 2007 mined cobalt was a byproduct of nickel mining from sulfide and laterite deposits. An additional 37% was produced as a byproduct of copper operations, mainly in the Democratic Republic of the Congo (DRC) and Zambia. The remaining 15% of cobalt mining came from primary producers.

There are very, very few primary cobalt deposits in the world today.

Democratic Republic of Congo(DRC)

The DRC holds two major distinctions. First, it is the richest country in the world in terms of mineral wealth, at an estimated $24 trillion, and it is the country in which the highest number of people - estimates go as high as ten million - have died due to war since World War II.

"The wars in that country have claimed nearly the same number of lives as having a 9/11 every single day for 360 days, the genocide that struck Rwanda in 1994, the ethnic cleansing that overwhelmed Bosnia in the mid-1990s, the genocide that took place in Darfur, the number of people killed in the great tsunami that struck Asia in 2004, and the number of people who died in Hiroshima and Nagasaki -- all combined and then doubled." Vava Tampa, Why the world is ignoring Congo war

The DRC, rated by the IMF as the world's poorest country, is widely regarded as the world's richest in natural resources.

The Congo's staggering economic potential (the DRC contains five percent of the world's copper and 50 percent of its cobalt) is matched only by its poverty and corrupt mismanagement.

The Democratic Republic of Congo ranks last on the UN Human Development Index (HDI) rankings which represent an annual assessment of measures of progress in human well-being.Countries at the bottom of the list suffer from inadequate incomes, limited schooling opportunities and low life expectancy rates due to preventable diseases such as malaria and AIDS. The report stresses that a lot of the problems encountered by countries with low rankings are worsened by armed conflicts and its devastating consequences.

Life expectancy in the Democratic Republic of Congo is less than 48 years, one of five children will die before age five and almost sixty percent of the country's 71 million people live on less than $1.25 per day.

The DRC ranks as one of the least equitable countries in the 2011 Gender Inequality Index (GII), which shows rankings of gender equality based on a composite index of reproductive health, years of schooling, parliamentary representation, and participation in the labour market.

Transparency International's 2011 corruption perception index ranked the DRC tied with Libya at 168 - at the time the countries were ranked Libya was embroiled in a civil war.

UN special Representative Margot Wallstrom called the DRC "the rape capital of the world" and both government forces and the militias in control of various parts of the country practice it.

"In 1994 the world watched Africa in horror as some 800,000 people were killed without regard for sex or age over the course of some hundred days; it was the Rwandan Genocide and commanded global guilt if not global action. In March, 1998, President Bill Clinton stood on the tarmac of Rwanda's Kigali airport and expressed to on looking crowds his failure to stop the genocide was the "biggest regret" of his presidency. Only six months later residual Hutu-Tutsi hostilities ignited the Second Congo War which lasted five years, directly involved eight African nations and twenty-five armed groups, claimed 5.4 million lives, and garnered little global attention. While the deadliest conflict since WW2 may have been initiated by deep ethnic and political tensions, the violence and bloody aftermath which perpetuates today was driven in large part by something deeper still: Congo's mineral wealth.

Many of Africa's resource-rich countries emerge from years of civil war with residual conflict zones, but in this case Congo is in a tragic class of its own. The enduring legacy of the Second Congo War is the continuing conflict in Congo's eastern provinces...Known as the Kivu Conflict, in 2004 this armed struggle between government forces and rebel militias picked up the Second Congo War's bloody baton and continues today due to innumerable artisanal mines funding a perpetual conflict whose brutality includes mass rape, mutilation, and cannibalism. The UN believes over 50% of the region's 200 mines are controlled by armed forces which employ illegal taxation, extortion, forced labor, and violence to ensure the flow of mineral wealth. According to one CNN report eastern Congo's armed groups generate some $180 million through the illicit trade of tin, coltan, tungsten, and gold which are easily traded across the porous eastern frontier and funneled into the international market…This volatile mixture of extraordinary mineral wealth, ethnic tension, and proxy armies can drag the region into another brutal war…With tensions high and 1994's genocide still casting its shadow over the region another devastating war remains a looming and distinct possibility." Nathan William Meyer, Deal of the Century: Will Chinese Investment Save Congo

The copper deposits in the Katanga Province of the Democratic Republic of the Congo are the world's top producers of cobalt and the political situation in the Congo influences the price of cobalt significantly. The politically unstable Democratic Republic of Congo contains approximately half of known global cobalt reserves and 40-50 percent of incremental cobalt production, over the next five years, is anticipated to emanate from the DRC.

Security of Supply

Access to raw materials at competitive prices has become essential to the functioning of all industrialized economies. As we move forward developing and developed countries will, with their:

Massive population booms Infrastructure build out and urbanization plans Modernization programs for existing, tired and worn out infrastructure Continue to place extraordinary demands on our ability to access and distribute the planets natural resources.

Threats to access and distribution of these commodities could include:

Political instability of supplier countries The manipulation of supplies The competition over supplies Attacks on supply infrastructure Accidents and natural disasters Climate change Accessing a sustainable, and secure, supply of raw materials is going to become the number one priority for all countries. Increasingly we are going to see countries ensuring their own industries have first rights of access to internally produced commodities and they will look for such privileged access from other countries.

Numerous countries are taking steps to safeguard their own supply by:

Stopping or slowing the export of natural resources Shutting down traditional supply markets Buying companies for their deposits Project finance tied to off take agreements Mining Laws Changed

The Democratic Republic of Congo is seeking to enlarge its stake from five percent to 35 percent in projects that are "free of charges and non-dilutable" and increase royalties to gain greater state revenues from the sector.

Proposals also include doubling royalties on some minerals and introducing a 50 percent levy on miners' "super profits" - when a commodity's price rises over 25 percent compared with its level at the time of the project's feasibility study.

Other proposed changes include scaling back the length of exploration permits to three years, from the four and five year permits available under the current code.

The exploitation phase of mining licenses will be reduced to 25 years from 30 years.

Conclusion

More than two-thirds of the world's cobalt is supplied by the Democratic Republic of the Congo.

Demand for cobalt is expected to rise at about seven percent yoy to over 100,000 tonnes by 2016 and industry experts say more stable sources of cobalt are needed.

A junior with a primary cobalt deposit should be on all our radar screens.Have you got one such junior on your radar screen?

If not, maybe you should.

Richard (Rick) Mills rick@aheadoftheherd.com www.aheadoftheherd.com

Richard is the owner of Aheadoftheherd.com and invests in the junior resource/bio-tech sectors. His articles have been published on over 400 websites, including:

WallStreetJournal, SafeHaven, MarketOracle, USAToday, NationalPost, Stockhouse, Lewrockwell, Pinnacledigest, UraniumMiner, Beforeitsnews, SeekingAlpha, MontrealGazette, CaseyResearch, 24hgold, VancouverSun, CBSnews, SilverBearCafe, Infomine, HuffingtonPost, Mineweb, 321Gold, Kitco, Gold-Eagle, The Gold/Energy Reports, Wealthwire, CalgaryHerald, ResourceInvestor, Mining.com, Forbes, FNArena, Uraniumseek, FinancialSense, Goldseek, Dallasnews, SGTReport, Vantagewire, Resourceclips, Indiatimes, ninemsn, ibtimes and the Association of Mining Analysts.

Published with permission of the author. The view's expressed in this article are not necessarily those of FNArena (see our disclaimer). The original story can be found at: LINK

Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Material Matters: LNG, Taxes, Nickel And PGMs

- LNG projects approaching critical decisions - Global mining taxes a concern - Citi updates metal views - PGM upside

By Andrew Nelson

Last year was a tough one in the LNG space. There were five significant cost and/or schedule blowouts at major projects, while the Australian energy index fell 7%. Analysts from BA-ML admit that while at face value the outlook for the 2013 LNG market is just as challenging as last year, it does see some rays of hope.

The broker points out that there are currently five LNG projects that are approaching critical decisions and with the current capex mood amongst investors being quite restrictive, the broker sees a good chance of some project redirection, which could prove good news to both third party servicers and the project owners as well.

While the broker's outlook for the US and Europe is less than constructive, the broker does see healthy growth still coming from emerging markets. China will remain a strong buyer, with the broker expecting a gas consumption lift towards 9.2Tcf/year by 2015. Ongoing manufacturing expansion in India, South Korea and Taiwan also bodes well for increasing energy demand, especially given India's domestic supply issues and the likelihood developing Asia will continue to develop. Japan is also expected to provide support, with it likely to maintain its currently high levels of LNG demand.

Given these trends and the fact that the US and Europe will eventually come back to the market strongly, the broker expects LNG demand will grow by 6% a year out to 2020.

Yet despite LNG demand growth expected to remain healthy, the broker thinks Australian projects are looking a bit thin at best. These include Browse, Arrow, Equus, Scarborough and Sunrise. BA-ML thinks these lower quality projects need to start thinking about alternatives, or risk permanent deferral if they are bought out by big name competitors.

However, the broker also sees some good looking projects, noting PNG LNG T3 and Gorgon T4 are highly likely to progress to the next stages of development. BA-ML cites quality resources, solid infrastructure synergies and sound economics as the driver. The broker not only sees the projects as being the best amongst peers, but because of the tough year that 2012 was, the broker believes these projects remain well supported despite the prospect of US competition.

The broker believes that the PNG LNG is the highest quality project in the region, which reinforces its preference for Oil Search ((OSH)) in the space. BA-ML sees return on capital lifting to 13.5% and then higher as further trains are added. Amongst the smaller plays the broker likes Roc Oil ((ROC)) given solid cashflow and expected production increases in the year ahead. Also, Horizon ((HZN)) is liked because of the catalysts provided by its PNG selldown, while Karoon Gas ((KAR)) is sitting on an increasingly valuable looking Poseidon.

Meanwhile, analysts from Goldman Sachs are becoming increasingly concerned about the moves afoot in a number of countries to increase taxes on the mining sector. Right now, the broker notes the average global royalty is around 4%, with iron ore at 7.7% and coal at 5.9% the most heavily taxed commodities.

Royalties are just part of it. Don't forget profit sharing taxes and corporate taxes that add to the total tax payment. All up, Goldman's estimates the average tax bill for miners is around 39%, with Australia above that at 44%. Countries like Mexico, Russia and Chile are far more favourable, but the broker sees a real risk these and others may move to bring their takes up towards the global average.

The good news is the broker notes Australian listed companies for the most part have fairly limited exposure to these regions. Rio Tinto ((RIO)) has the most at around 26% of revenue, while BHP Billiton ((BHP)) draws about 18%

and Newcrest ((NCM)) around 15%.

However, there is another risk. The broker notes that the total tax payable by miners remains well below that of their oil peers and the government could well look to close that gap. This would imply 10%-15% increases.

Analysts at Citi have taken some time to revise a number of commodity price assumptions, with China expected to downshift to a lower-paced rate of growth, while extra product also hits the market from a number of long dated projects.

The big changes for 2013-14 forecasts are in nickel and gold, although there are also long term changes to platinum and palladium. After the revisions, Citi is bullish on palladium and nickel and bearish for silver, gold, copper and lead. As such, Citi has lifted its long term prices for palladium by 13.3% to US$680/oz and $775/oz for 2013.

However, the broker trims its nickel price assumptions by 8.6% to US$19,890/t for 2013 and by 7% to US$22,725/t for 2014. The reason Citi remains a fan of nickel despite the lower prices has to do with a plague of outages at major sites in Brazil like Vale's Onca Puma and Anglo American's Barro Alto plants. Citi also notes Vale continues to struggle in New Caledonia. The broker also notes supply issues at Lomo de Niquel in Venezuela and the closures of Nicaro in Cuba and the Yuzhuralnickel plant in Russia.

On a worst case scenario, the broker thinks we could see a 70-80 ktpa shortfall versus planned production for this year, depending on how things pan out. Also, stainless steel makers are thought to be quite short on nickel in Europe, North America and also China. Thus, the broker expect some level of restocking next month, with overall stainless production expected to lift by 5%-7% in 2013.

One of the main drivers of the broker’s preference for palladium is the expectation for an increasing deficit market, mainly due to growth in light vehicle production in China and the US. The broker notes the sheer size of these two markets combined point to a significant uplift in demand, despite a muted economic growth environment.

The broker has also upgraded its 2013-16 platinum price assumptions a little, but notes the current supply deficit should be short lived. What’s funny is the broker expects the higher platinum prices will actually be what leads to lower platinum prices.

Citi explains: 1) higher prices will weigh on price-elastic Chinese jewellery demand, thus higher prices equal less demand. 2) higher prices mean more catalyst recycling and thus more supply and lower prices. 3) higher prices see producers sell down stock piles, thus more supply again. Citi’s 2013 and 2014 prices are US$1700/oz and US$1775/oz.

The broker’s silver price forecasts remain unchanged, although gold price forecasts for 2013 and 2014 are cut by 4.2% to US$1675/oz and 0.2% to US$1653/oz respectively. Citi’s 2013 lead price forecasts are lifted a little to US$2115/t, while 2013 copper and aluminium forecast remain pretty much unchanged at US$7695/t and US$2100/t respectively.

Lastly, analysts at Deutsche have a tip for you. The broker is expecting a modest deficit in the lead market in 2013, while at the same time seeing a chance demand could unexpectedly lift given the prospect of adverse weather conditions in China. This has the broker thinking the lead market could be one of the more attractive long opportunities this year. Buy on weakness, says Deutsche.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Dollars, Yens, Euros And Pounds

By Andrew Nelson

One of the results of the fiscal cliff deferral is that risk has remained somewhat "on" for the start of the year. The funny thing is, the US dollar hasn't really lost any ground, which is one of the things that tend to happen when the risk switch is flipped.

Analysts at Canadian investment bank CIBC World Markets see greenback support coming from a weaker yen, but also from growing hopes the current US easing cycle may well be brought to an end before next New Year. However, the biggest support, says CIBC, will be the only partial risk on push to date, with upcoming debt ceiling negotiations and political concerns in Europe making sure some form of risk aversion still exists.

However, once these bridges are crossed (assuming they are) the bank expects the USD to start pulling back once more. This is especially so given it will take more than a few weeks for US rates to even start looking like they're going generate some interest. CIBC also notes stubborn employment data could also push out rate hikes further out. The call: the USD should weaken later in 2013 and on into 2014.

Also, the bank notes that as the global economic recovery starts to gather pace (assuming it does), commodity prices will hopefully start finding some support. This will likely encourage the Bank of Canada to begin lifting rates later in the year. Given the prospect of higher Canadian rates, CIBC expects the Canadian dollar, or loonie, to push past USD parity by early 2014. Over an even longer timeframe, the bank believes investing in the loonie should be profitable, although it notes there could be better buying opportunities in the coming months.

As far as the euro goes, CIBC notes that current policy doesn't seem to care about the possible impact of near term euro appreciation. However, the bank notes this could change swiftly if concerns about fundamentals come to the fore again. The bank doesn't seem in favour of hanging on to euros, saying any sort of near-term rally in the EUR/USD, possibly testing 2012 highs, would provide a good level to sell euro holdings.

Next, the more subdued tone in Europe hasn't done much for the pound sterling, which has continued to slip against both the euro and the USD. The expectation of continued weak data do little to improve the prospects of the pound, with CIBC expecting it to ease further against both the euro and USD. Although, the bank does note the move in EUR/GBP could well prove temporary. USD moves are a little more solid, with CIBC expecting the GBP/USD should to continue to decline towards the mid-point of a 1.50-1.60 fair value range.

Since the start of November, the Japanese yen has fallen more than 10% against the USD on the newly appointed government's push to end deflation and jumpstart CPI. The bank expects some very aggressive monetary policy will undertaken, and thus the yen will weaken further. However, with central banks needing to re-balance positions, the bank thinks there could be some near-term support for the yen. But after that, yen depreciation is set to resume in Q2, with CIBC expecting the USD/JPY to reach 92.

CIBC also expects the Aussie will have to crack sooner or later, thinking it is currently both over-valued and over-bought. Domestic data are increasingly soft and the prospect of more rate cuts remains. However, China is starting to pick back up and the rate differential is still attractive, meaning the Aussie still has plenty of support for the time being. But were China to hit a bump and were more rate cuts to ensue on a further softening of the Australian economic outlook, CIBC thinks a correction in the Aussie towards mid-year could pull it below USD parity. Maybe.

How Do You Trade An Approaching Currency War?

By Tyler Yell, Trading Instructor, FXCM

Article Summary: There is discussion about a possible run of major Central Banks to fight to debase their currencies and bolster their economy to new heights in 2013. This currency war has been seen with the Japanese Yen (JPY) of late and the Swiss Franc (CHF) since 2011. This fundamental story could lead to many more technical breakout trades in 2013 if the Currency War launches and the Yen's big moves may be just the beginning.

There's talk of an economic war on the horizon. At stake is the economic health and growth of major economies. The weapons are monetary policy used to weaken currencies in a way to make exports attractive and boost local GDP.

Japan has stormed the Economic beaches on all fronts as the new Prime Minister, Shinzo Abe, and the Minister of Finance have put their foot on the monetary policy gas to weaken the currency with new rounds of intervention and fiscal targets. Prominent members of Japan's economic cabinet are saying that 110 USDJPY would still be too low to help their exports pump up their economy, while others say that 120 would be appropriate. That's 2,000 -3,000 pips from where we are today.

USDJPY Could Move Higher By Another 2,000 – 3,000 Pips If Japan Is Successful

Created with Marketscope/Trading Station II

Recently, there has been discussion from other major central banks that their currencies strength could block recovery and growth. This has led others to believe they will weaken their currency to pump up exports and jump on board the global recovery train in a new manner. One thing you can count on is that if a Currency War does break out, you need to be prepared because big moves will follow.

So, What Is A Currency War And Why Is It Happening?

A currency war is an all-out determination by a central bank to debase or weaken their currency so they can boost exports and strengthen their economy.Now that most economies have stabilized themselves from the credit crisis, which is the paradigm we've been trading under for the last 4 years, the central banks are trying to get an economic edge by weakening their currencies.

Exports are a major boon for economies as selling to other countries is one of the best ways to boost the GDP and overall economy of any nation. For example, Japan has thrived historically with a weak yen but has been in a prolonged period of stagnant growth with a strengthening yen as you can see against the Euro in the last 5 years.

EURJPY Currency Chart Displays Stronger Yen

Created with Marketscope/Trading Station II

This chart and the one above displays the reality that € 1 use to buy ¥ 170 worth of goods. Now, €1 buys only ¥120 worth of Japanese goods and a few months ago only ¥95 worth of goods. This example shows you why export dependent Japan is eager to weaken their currency. In short, their global customers have less power to buy Japanese goods then they did years ago and Japan has determined a fiscal fight to restore their customer's purchasing power by weakening their home currency.

Who Could Be Involved In The Currency War?

The main players are the major global central banks with low interest rates. These include Japan's Central Bank for the Yen, Federal Reserve for the USD , European Central Bank for the EUR, & Bank of England for the GBP. Right now, these banks have interest rates sitting near zero so they're already deeply committed to have their monetary policy support economic growth with their currency.

Why Does This Matter To You And How Do You Trade A Currency War?

Namely, the moves like we've seen in the JPY against major and minor currency pairs could be just the beginning if a currency war really takes off. Also, there are a few currencies out there that could rise sharply in value as they're not looking to debase their currencies like other central banks.

If we get a risk-on environment, the banks that are fighting to weaken their currency to spur economic development like the EUR, USD, GBP & JPY with zero interest rates will continue the race to debase their currency. This means these currencies will fall and you could see other currencies like the AUD, NZD & MXN become hunted like the CHF did in 2011.

EURCHF Weekly Chart Displays the Swiss National Bank Reaction to Strong CHF

Created with Marketscope/Trading Station II

Naturally, buying XAUUSD or stock indices like the US30, GER30, UK 100, or JPN225 (Japan's stock index) is a go-to trade when traders sense that there is a debasement of currencies.

If a runaway move starts to develop, you want to be on the look-out for Breakouts. Also, if the move continues, you can look to scale-in to a position. Scaling-in to a position allows you to take multiple entries so that you're increasing your exposure to the move only if the trade is moving in your favor.

What Should You Watch Out for When Looking at Trade Set-Ups?

Trading is a game of expectations. When markets expect something to happen and a central bank underperforms expectation, we can see sharp moves. Keep your eye on central bank meetings coming up with our Economic Calendar and keep an ear for increased bond buying or some other type of GDP targeting monetary policies which are fancy words that mean the central banks will weaken the currency as necessary to hit growth targets.

Closing Thoughts

It looks as though the fundamental picture and the technical set ups will continue to converge. When this happens, it's a good time to be a currency trader. Take advantage of pull backs and look to play off of the central banks in the coming years if they try and debase currencies to meet economic objectives.

---Written by Tyler Yell, Trading Instructor

Published with permission of the publisher. The views expressed are not FNArena's (see our disclaimer).

For real time news and analysis, please visit http://www.dailyfx.com/real_time_news

DailyFX provides forex news on the economic reports and political events that influence the currency market. Learn currency trading with a free practice account and charts from FXCM.

www.dailyfx.com

Disclaimer

Forex Capital Markets is headquartered at Financial Square 32 Old Slip, 10th Floor, New York, NY 10005 USA.

Trading foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before you decide to trade the foreign exchange products offered by Forex Capital Markets, LLC, Forex Capital Markets Limited, inclusive of all EU branches, FXCM Asia Limited, or FXCM Australia Limited, any affiliates of aforementioned firms, or other firms under the FXCM group of companies [collectively Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Japan's Monetary Aggression Underwhelms

- Account surplus, not QE driving yen weakness - USD/JPY to push higher after brief consolidation period - Enter long USD/JPY positions at around 87.80 for 100 by year end

By Andrew Nelson

Analysts from the Commonwealth Bank report that the USD/JPY has eased some 1.2% since the Bank of Japan (BoJ) announced its move to a 2.0% inflation target, while otherwise delaying an increase in open ended asset purchases until 2014.

CBA points out that the move has ended up disappointing a market that was long USD/JPY in anticipation of a far more aggressive move replete with some serious near term quantitative easing. However, the broker thinks many in the market are missing the point, noting that JPY is weakening not because of the BoJ's quantitative easing policy (or lack thereof), but because Japan now has a structurally smaller current account surplus.

Remember, says CBA, Japan's monetary policy has pretty much been on and off for more than ten years now and since the BoJ recommenced its quantitative easing programme back in October 2010, it has only completed 66% of targeted asset purchases. Not what you'd call concerted, or effective, really.

This has CBA wondering why people would be so concerned about the pushing out of more aggressive quantitative easing until January 2014, when the fact of the matter is the BoJ isn't even keeping up with the currently much milder asset purchase programme already in place.

Yet even though asset purchases have been modest and well short of expectations, the JPY has weakened 13.5% against the USD since mid November. This is what convinces CBA that the JPY is weakening because of Japan's smaller current account surplus, rather than it having to do with the BoJ's past or current quantitative easing policy.

In fact, points out the bank, the large lift in USD/JPY pretty much started straight after Japan posted its first monthly current account deficit in some thirty years.

Given the drivers behind the smaller current account surplus haven't changed, the bank expects the USD/JPY to continue to push higher after a brief period of consolidation. Thus, current disappointment in the BoJ's announcement is providing a perfect catalyst for a period of USD/JPY consolidation. In short, it's a good time to build some additional long USD/JPY positions, says CBA.

On the bank's calculations, any dip in the USD/JPY will be shallow, so CBA advises to enter long USD/JPY positions at around 87.80, with the smaller Japanese current account surplus to drive the USD/JPY to 100.00 by year end.

Weekly Broker Wrap: Slowly, Slowly Grinds The Recovery

-Recovery will be slow in 2013 -Mid cap resources making headway -Opportunity in software -Tough times in healthcare

By Eva Brocklehurst

Domestic recovery is coming, slowly. CIMB has launched a semi-annual survey of its analysts to see how their macro views are tracking. A domestic cyclical recovery seems to be in the early stages but the momentum is fairly weak. Firms are focused on reducing costs. CIMB notes cost reduction has been weak in the basic materials sector, but this could be changing with Boral's ((BLD)) announcement of staff cuts. Retail, food & beverage and infrastructure sectors have also been less aggressive on costs. The mining sector has an improved outlook for margins, given a combination of cost mitigation and stronger demand. CIMB says business conditions are unchanged, or have weakened, for the small-cap stocks exposed to domestic housing and consumer spending. Of course any meaningful dip, say 10%, in the Australian dollar would have a large positive effect on earnings for S&P/ASX 200 companies in the broker's coverage. Miners would have the most to lose from further appreciation of the Australian dollar and transport and infrastructure stocks would see relatively little impact, CIMB notes. The analysts believe 36% of investors are neutral on the market, while 35% are underweight and 25% overweight. Large-cap diversified miners are seeing a pick-up in demand and some margin expansion. However, the broker is seeing the mid-cap iron ore, uranium, zircon and rare earths stocks (led by iron-ore miners) making up the most ground. Demand in the mid-cap coal and gold sector is relatively weaker. The market will be fighting to sustain the rally in the year ahead, BA-ML contends. While small caps rallied in 2012, resources were a weak spot. Despite this, small-cap valuations are still attractive to the broker, but investors need to be selective. Small-cap industrials are attractively valued at a 1% discount relative to the broader market, despite a vast majority of quality stocks having re-rated in 2012. Industrial goods & services dropping materially within the index. Preferences are for energy over resources. Mining services have run too hard and consequently the broker downgraded Bradken ((BKN)) and Sedgman ((SDM)) to Underperform. Super Retail ((SUL)) is considered a quality play and other BA-ML favourites include Automotive Holdings ((AHE)), Ainsworth ((AGI)), Henderson ((HGG)) and Technology One ((TNE)). Goldman Sachs also favours Henderson with a Buy rating. Goldman Sachs sees positive markets ahead and early signs of a turn in flows, which should deliver earnings upgrades. Models have been adjusted to reflect the strength in equity markets during the December quarter. However, the size of earnings upgrades depends on each stock's leverage to markets. Again, the theme is selective. In financial services the broker sees AMP ((AMP)) with the lowest leverage and BT Management ((BTT)), Henderson and Perpetual ((PPT)) with the highest. In summary, the broker is Neutral on AMP but sees upside in the AXA synergies. BTT is Neutral rated, with a downside in the UK slowdown. Henderson is a Buy, as mentioned, IOOF ((IFL)) is Neutral while Perpetual is rated a Sell. The year has started with a triumph of hope over earnings, at least in building materials and steel, according to JP Morgan. The sector has enjoyed a particularly strong performance over the past six months, outperforming the ASX 200 by 20%. Drivers of this strength are the growing expectations for material cost cutting at Boral and Fletcher Building ((FBU)) and the ongoing momentum in the US housing recovery for Boral and James Hardie ((JHX)). The broker believes Boral and Fletcher share prices are ahead of the rationalisation prospects and so has downgraded both to Underweight from Neutral. On the FNArena database Boral got the rounds of the kitchen this week. The stock received two rating upgrades (Deutsche Bank and Credit Suisse) to Buy and two downgrades to Sell (CIMB and JP Morgan). Upgraders cite the reduced costs while downgrader CIMB takes a more cynical view of the longer term impact. In contrast, the US housing recovery is seen gathering momentum and a strong order book raises Hardie to Neutral from Underweight for JP Morgan. Adelaide Brighton ((ABC)) remains Overweight and is JP Morgan's preferred pick in the sector. The broker notes ABC is trading at a deep discount to the sector on most valuation metrics, as well as offering a relatively defensive cash flow profile. However, on FNArena's database, BA-ML takes a dimmer view, expecting growth to slow. It has downgraded the stock to Underperform from Neutral. For JP Morgan, CSR ((CSR)) remains in Neutral and Deutsche Bank and Macquarie's ratings concur. After hitting an all-time low in July last year, CSR has staged a strong rebound, based on an improved aluminium price and JP Morgan sees limited upside to the current share price. Macquarie has taken a snapshot of Christmas trading trends to see the outfall for retailers. The first two weeks in December were particularly weak but it was a strong Boxing Day clearance through to the first week of January. Hot weather drove air-con and refrigeration sales. Seasonal appliance sales were seen up in excess of 40% in December and refrigeration sales grew high single digits. Department store feedback favours Myer ((MYR)) over David Jones ((DJS)) at Christmas, Macquarie said. Due to the significant improvement in weather in December and trade feedback indicating over 40% improvement in seasonal appliance sales during the month, Macquarie upgraded Harvey Norman ((HVN)) earnings estimates for FY13 by 4.7%. The remainder of the Christmas trading feedback was largely in line with expectations and no other significant changes were made to earnings or valuations of the other discretionary retailers. Morgan Stanley can see pockets of opportunity in a tough software industry exposed to soft corporate and government expenditure. CSG's ((CSV)) turnaround and Reckon's ((RKN)) expected growth profile stand out. However, job vacancies and business confidence continue to languish. Morgan Stanley says industry feedback from both IT providers and client firms suggests pressure on budgets and uncertain project timing. Individually, CSV has rallied 22% from its late September low and the broker's 80c targets reflects a 10% upgrade to FY14 earnings estimates a re-rating towards industry peers. Consulting and services stocks like SMS Management ((SMX)), Oakton ((OKN)) and ASG Group ((ASZ)) face negative first half earnings momentum due to soft demand and increased uncertainty relating to delays and deferrals. Morgan Stanley cut SMX earnings 9% for FY13 estimates but expects it is best positioned to take advantage of any rebound in demand. UBS notes that the Australian healthcare sector is unlikely to repeat its 2012 performance this year. Sector earnings risk is low but improving demographics are now factored in and price catalysts are scarce. Upside is seen in any broader market weakness and stock specific events. In view of the fact the next Australian federal election must be held by November domestic healthcare service providers such as Primary ((PRY)), Ramsay ((RHC)) and Sonic ((SHL)) are quite exposed. UBS suspects there won't be unnecessary policy change/confrontation this year. On FNArena's database BA-ML has singled out Primary as a Buy, at high risk, noting synergies with the Symbion merger are starting to deliver. Australian names deriving revenues globally, such as CSL ((CSL)), Cochlear ((COH)), ResMed ((RMD)), Sonic, Ramsay, Ansell ((ANN)) and Sirtex ((SRX)) are all likely to confront similar headwinds and Europe has never been tougher, UBS maintains.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

The Short Report

By Andrew Nelson

Shorting and short covering in the Australian equity market remained fairly sedate over the period from 9 to 16 January. Activity was spread across a number of sectors, although miners and discretionary plays remain the predominant participants on both the increase and decrease sides of the ledger.

There was very little going on in terms of weekly short position increases, with the biggest move posted by SingTel ((SGT)). Shorts in the telco increased 1.49 percentage points (ppt) from 1.89% to 3.38%. The shares maintain a positive sentiment amongst brokers, with four Buys and three Holds on show in the FNArena Database.

Shorts in OZ Minerals ((OZL)) pushed 1.18ppt higher from 1.71% to 2.89%. Macquarie downgraded its call on the stock to Neutral from Outperform last week as part of a sector wide review, believing 2013 will be another tough year for the company. Paladin ((PDN)) saw its short position increase 1.01ppt from 11.33% to 12.34% despite the company's December quarter production report being well received, with brokers for the most part remaining concerned about the persistently weak uranium spot price.

On the decrease side, shorts in Silver Lake Resources ((SLR)) came off 7.46ppt from 7.97% to just 0.51% on the heels of implementing the merger with Integra Mining ((IGR)). The count will drop to 0% in the next report, as Silver Lake shares ceased trading on Monday. The merger has created one of the largest all-Australian gold producers around, with a 6.6 million ounce resource base and forecast production of over 400,000 ounces per annum in 2014.

The only other mention on the weekly downside list is Linc Energy ((LNC)), which announced last week it had partnered with DTEK Oil and Gas to evaluate underground coal gasification potential in the Ukraine.

Monthly moves of over 2ppt were also limited, with just three on the increase side and two on the decrease. Fairfax ((FXJ)) booked the biggest increase to its monthly short position, lifting 3.43ppt from 12.15% to 15.58%. The increase has bumped up the stock from three to two on the Top 20 most shorted list. Sentiment remains slightly to the negative, with two Buys, three Holds and three Sells on show in the database.

Shorts in Mesoblast ((MSB)) increased by 3.19ppt from 2.68% to 5.87%. Credit Suisse upgraded its recommendation to Outperform from Neutral last week on news the company had reported a positive outcome for its Phase-2 lumbar spinal fusion trial. The broker was upbeat on the news, noting management can now sit down with the US FDA to discuss Phase-3 trials. Sentiment for the stock remains strong, with three Buys and one Sell on show in the database.

The last significant increase posted on a monthly basis was done so by Paladin ((PDN)). Shorts in the uranium miner increased 3.09ppt from 9.25% to 12.34%.

With it soon to disappear, Silver Lake Resources also sits atop the monthly decline list, its short position coming off 7.58ppt. With its big weekly move, Linc Energy also finds itself near the top of the monthly decrease list as well. JB HiFi ((JBH)) saw its short position retreat 1.62ppt from 20.59% to 18.97%. However, the move isn't enough to budge the company out of the top spot on the Top 20 most shorted list.

The Top 20 list itself isn't much changed other than a few position swaps and the like. Silver Lake dropped from 13 to not on the list, which opened up a spot for Mesoblast to join at the number 20 spot. Bradken ((BKN)) moved to the 14th from 20th spot, while Wotif.com ((WTF)) descended from 16 to 19.

Top 20 Largest Short Positions Rank Symbol Short Position Total Product %Short 1 JBH 18474691 98850643 18.69 2 FXJ 361324855 2351955725 15.36 3 ILU 63077937 418700517 15.07 4 MYR 79203286 583384551 13.58 5 FLT 13070471 100165616 13.05 6 PDN 99760615 836825651 11.92 7 HVN 121397076 1062316784 11.43 8 DJS 60663036 531788775 11.41 9 MTS 91366483 880704786 10.37 10 TRS 2567209 26092220 9.84 11 CSR 42212806 506000315 8.34 12 COH 4719502

57026689 8.28 13 MND 6889538 90663543 7.60 14 BKN 12189241 169240662 7.20 15 ACR 11705793 166496711 7.03 16 LYC 137331037 1960801292 7.00 17 WSA 13311362 192893794 6.90 18 AWC 162536753 2440196187 6.66 19 WTF 14013072 211736244 6.62 20 MSB 17584137 287132832 6.12 To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position “naked” given offsetting positions held elsewhere. Whatever balance of percentages truly is a “short” position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, “short covering” may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to “strip out” the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio – a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option (“buy-write”) position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a “long” position in that stock.

Another popular trading strategy is that of “pairs trading” in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a “net neutral” market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are “short”. Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

A Closer Look At Treasury Yields

By Kathleen Brooks, Research Director UK EMEA, FOREX.com

In recent posts we have mentioned the importance of Treasury yields, so I thought it was time to take a closer look at US government debt and the driver of yields going forward.

The reason Treasury yields are important include:

1, They could determine the future direction of USDJPY as the differential between US Treasury yields and Japanese government bond yields are a key driver of this cross.

2, The future direction of yields could have implications for the stock market and for commodity prices. For example, if Treasuries are sold off in favour of stocks pushing yields higher (Treasury prices move inverse to yields) then we may see commodities struggle as corporate funding costs may rise. Since the start of this year, although stocks have moved higher gains in commodities have been more muted and only started to play catch up in recent days.

3, Changes in Treasury yields can have big implications for the direction of the dollar, which in turn can impact the direction of commodities and stock markets.

Potential drivers of yields in the near-term:

1, Economic data in the US: in this regard payrolls and housing data are the key releases to watch out for. Positive economic data surprises tend to push yields higher, while economic misses can weigh on yields as they support loser Fed policy. Due to this, Feb 1st 2013 will be a pivotal day for the Treasury market as Non-Farm Payrolls and ISM manufacturing data points are both released.

2, The Fed meeting at the end of Jan. The statement will be pivotal as no change in rates or policy is expected. It will be interesting to see how the new members of the Fed react; for example, if the new dovish voting members make their voices heard and sound concerned about the impact of social securtity tax rises on consumer confidence and behaviour. Treasury yields are very sensitive to Fed statements, so any sign the Fed is more dovish, or more hawkish could cause volatility in the Treasury market.

3, Currency wars. We have alrerady heard from a German lawmaker who is questioning the BOJ's and the government of Japan's intervention in the yen, saying that Germany could raise the topic of the yen at the next G20 and that Japan's action on the yen risks retaliation. A currency war is considered a form of protectionism, and protectionism can cause risk appetite to drain from markets. If there is a "currency war" and retaliatory action is taken against Japan then we could see investors rush to safe haven assets like Treasuries, that could push down yields. This is a medium-term concern and may not have a big impact on markets in the near term.

The technical perspective:

Chart 1: 10-year Treasury yield, daily chart

As you can see yields may have backed away from the 1.95% highs from earlier this month, but the outlook remains constructive. They held support at 1.84%, and could be in an ascending triangle pattern. A break above 1.9% could open the way for a re-test of 2% in the medium term.

Source: PLEASE NOTE THIS IS A BLOOMBERG CHART AND IS NOT AVAILABLE TO TRADE WITH FOREX.com

Chart 2: 10-year US Treasury yields and USDJPY

As you can see, this cross moves closely with US Treasury yields. A break above 1.9% in the 10-year yield towards 2% could be the driver to get USDJPY above 90.00.

Source: Bloomberg and FOREX.com

Conclusion:

As you can see above, the technical outlook for Treasuries is still constructive, thus, if we get some positive economic data out of the US in the coming weeks yields could start to rise towards 2%, which is positive for USDJPY. Obviously, an escalation of currency wars or data misses in the US could hurt this outlook, but for now, Treasury yields suggest that USDJPY is taking a breather and could embark on a leg higher in the coming days and weeks.

Re-published with permission. Views expressed are the author's and not, by association, FNArena's (see our disclaimer).

Disclaimer: The information and opinions in this report are for general information use only and are not intended as an offer or solicitation with respect to the purchase or sale of any currency or CFD contract. All opinions and information contained in this report are subject to change without notice. This report has been prepared without regard to the specific investment objectives, financial situation and needs of any particular recipient. Any references to historical price movements or levels is informational based on our analysis and we do not represent or warranty that any such movements or levels are likely to reoccur in the future. While the information contained herein was obtained from sources believed to be reliable, author does not guarantee its accuracy or completeness, nor does author assume any liability for any direct, indirect or consequential loss that may result from the reliance by any person upon any such information or opinions.

Futures, Options on Futures, Foreign Exchange and other leveraged products involves significant risk of loss and is not suitable for all investors. Increasing leverage increases risk. Spot Gold and Silver contracts are not subject to regulation under the U.S. Commodity Exchange Act. Contracts for Difference (CFDs) are not available for US residents. Before deciding to trade forex and commodity futures, you should carefully consider your financial objectives, level of experience and risk appetite. Any opinions, news, research, analyses, prices or other information contained herein is intended as general information about the subject matter covered and is provided with the understanding that FOREX.com is not rendering investment, legal, or tax advice. You should consult with appropriate counsel or other advisors on all investment, legal, or tax matters. FOREX.com is regulated by the Commodity Futures Trading Commission (CFTC) in the US, by the Financial Services Authority (FSA) in the UK, the Australian Securities and Investment Commission (ASIC) in Australia, and the Financial Services Agency (FSA) in Japan. Please read Characteristics and Risks of Standardized Options (http://www.optionsclearing.com/about/publications/character-risks.jsp).

Technical limitations

If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

Integrated Research Offers High Tech Opportunity

-IRI coverage initiated with Hold -Offers high tech exposure -Blue chip customer base

By Eva Brocklehurst

Software developer, Integrated Research ((IRI)), presents opportunities for exposure to the high tech arena according to Moelis. The Australian based company, established in 2007, provides monitoring and reporting functions for critical IT infrastructure, payments and communications. IRI claims to "make your business irresistIble to your customers". Moelis has initiated coverage with a Hold rating and target price of $1.45. The company has warned that first half profit will likely be $2.5m-2.9m against $3.6m previously (ie down 20-30%) but Moelis explains this as largely attributable to the lumpy nature of the company's contracts. Management has said the sales pipeline is very strong and the shortfall in licence sales in the first half will likely be made up in the second. This should deliver growth in FY13. IRI customers include financial institutions, stock exchanges, telcos and governments. Its revenue breakdown is typically 20% per annum of revenue spent on R&D and 30% as maintenance. IRI specialises in business-to-business and most of its clients are recommended by other clients. Moelis says the significant opportunities available were demonstrated by the net profit growth of 21% in FY12 that followed a 39% increase in FY11. The company's main segment, Unified Communications (around 44% of revenue), delivered a 31% constant currency revenue increase in FY12. The broker says this demonstrates the opportunities available within an immature high growth segment driven by the growth in size, complexity and critical nature of networks, particularly in the Americas. Infrastructure, the second major segment, (around 42% of revenue), comprises the traditional Prognosis Nonstop software. This experienced a 5% decline in revenue reflecting what is now a mature global market, according to Moelis. What attracts the broker is the significant opportunities available to Unified Communications software within a high growth (15% pa) international segment valued at over $500 million. This is driven by the need for multiple methods of communication as well as the company's stated target to increase the current 5% global market share to 25% by 2017. Despite some recent weakness, IRI's share price is up over 180% over the past year. Moelis says its value metrics are well deserved and the return on equity is over 30%.

Treasure Chest: Global Outlook For 2013

By Greg Peel

The year just passed was yet another post-GFC year, featuring considerable uncertainty and the spectre of slowing growth. Yet asset price volatility took a considerable dive. Indeed, 2012 had a feel of trader/investor weariness from chasing markets backward and forward in panic amidst a sense of having been down the same path too many times before. There has also been a wholesale withdrawal from risk assets since the GFC, which provides another explanation for low levels of specific volatility measurements such as the VIX.

The VIX basically reflects demand for equity put option protection, which is usually at its greatest in times of uncertainty. However, if equity holdings are at historical lows, it follows that demand for protection is redundant, and hence VIX readings have limited upside.

Yet as 2012 began to wind down, the tolerance for risk asset investment began to creep upward once more despite ongoing global uncertainty. At the end of the day, if we're looking for put option protection we actually have loads of the stuff – in the form of significant global central bank stimulus. The impact of such stimulus, notes the ANZ economics team, has been to keep interest rates lower for longer and boost risk appetite (if for no other reason than a search for yield).

With output gaps in major economies (capacity versus utilisation) still wide, and inflation pressures minimal as deleveraging continues, ANZ expects more of the same from central banks in 2013. This “central bank put” will ensure volatility remains low and risk sentiment will continue to be supported. However, overall returns across asset classes should ease in 2013, ANZ believes, following the late 2012 spurt.

The US is the best placed of the developed economies following a lengthy phase of financial repair, the economists suggest. However, we still have to get through the debt ceiling debate and an actual plan is needed for the ongoing fiscal cliff issues. If such issues can be resolved sufficiently in the first half, we should see solid economic expansion in the second half, says ANZ.

Reforms in the eurozone are beginning to pay off, but there still lies a long road ahead, with a lack of growth the biggest threat in ANZ's view. Spain is the most vulnerable, but across the zone an ongoing failure to generate growth may lead to further instability as unemployment continues to rise. The economists foresee further policy easing from the ECB.

The new government in Japan is set to pursue a policy of vigorous reflation through monetary easing and fiscal spending. While such a policy should have positive global implications, ANZ is among others who warn of rising yields on Japanese government bonds, which are extensively held by Japanese banks. Rising yields mean falling prices.

Strong capital inflows and solid Chinese demand should ensure ongoing resilience in Asia (ex-Japan), ANZ suggests. The risk here, however is that capital inflows, fuelled by developed economy monetary stimulus, could spark asset price bubbles across the region and a spillover into CPI inflation.

ANZ expects sovereign bond yields will remain low in 2013, but with limited scope for further falls (higher prices) given the extent of falls to date. Returns on sovereign bonds should thus remain modest. As sovereign bond yields contracted over 2012 and previously, investors have sought yield through riskier corporate and other non-government bond yields. Credit spreads had remained elevated post-GFC, but the rush into such investments more recently – driven by assessments that such credit spreads reflected excessive fear – has ensured spreads have now pretty much returned to more realistic levels, ANZ believes. Returns on such assets should thus decline in 2013, ANZ suggests.

The shift to greater risk tolerance should nevertheless ensure ongoing positive returns for equities, the economists believe, but at a steadier pace than that seen in 2012.

ANZ's economists, like many others, cannot go past ongoing global monetary easing as a positive for the gold price in 2013. Gold may also be supported by a possible Indian government intervention to restrict gold imports at the same time as Chinese renminbi and Indian rupee strength should lower the cost of imported gold, ceteris paribus, for the world's two biggest gold consumers.

An improving US housing sector is behind ANZ's positive 2013 view for copper, while the economists believe the 2012 rally in the lead price has been overextended. The end of Russian stockpile sales, and a push in the US to renew an ageing vehicle fleet, should see strong demand for palladium.

Crude oil in the form of benchmark Brent should be supported by the conflagration of increasing Chinese refinery capacity and dwindling North Sea and Middle East supply, ANZ believes. Shale oil production in the US will continue to maintain an oversupply of land-locked West Texas crude, thus ensuring an ongoing Brent/WTI price spread.

ANZ expects grain prices to show further strength in 2013 due to increased Chinese demand meeting a tightening of stockpiles in the first half of 2013. Soft commodities such as cotton and sugar are likely to see price falls, the economists believe, with cotton in particular facing significant Chinese stock overhang.

Treasure Chest: Pharmaxis, Downer EDI, Flightcentre, Toll

By Rudi Filapek-Vandyck

Analysts are pointing out this morning, local biotech Pharmaxis is awaiting a review of its new drug application for Bronchitol use in cystic fibrosis sufferers of 6 years and higher in age. An announcement/decision by the US Pulmonary-Allergy Drugs Advisory Committee (PADAC) is scheduled for Wednesday, 30 January (US time) which will be Thursday, January 31 in Australia.

The importance of the event is illustrated by preliminary statements from Credit Suisse and Deutsche Bank this morning, indicating a positive ruling will lead to a valuation increase of respectively 23c and 28c. This translates into a potential valuation boost of at least 15% - all else being equal.

For more information see today's Australian Broker Call Report on the FNArena website or Stock Analysis.

In addition, Morgan Stanley has issued a few "Research Tactical Ideas" today. Two are positive, one negative.

First idea is that Downer EDI ((EDI)) shares are likely to receive a boost from a positive outlook to be issued together with the upcoming interim report in February. It is for this reason Morgan Stanley thinks the shares will be higher in 30 days' time.

Second idea is that Flight Centre ((FLT)) shares will be higher in 60 days from today. This projection is also based upon a positive results release in February.

Third idea is that Toll Holdings ((TOL)) may well meet market expectations with its own report next month, but the quality shall be low and that will be a disappointment. In this case Morgan Stanley sticks to a relative call in that Toll shares will weaken on a relative comparison with the index.

Find out why FNArena subscribers like the service so much: "Your Feedback (Thank You)" - Warning this story contains unashamedly positive feedback on the service provided.

A Risk Assessment For Australian Equities Anno 2013

By Rudi Filapek-Vandyck, Editor FNArena There's a certain irony in the fact that retail investors in the US are starting to rediscover US equities now that major indices such as S&P500 and Dow Jones Industrials are back at levels not seen since late 2007. Funds flows into US equities are now net positive for six consecutive weeks. Previously, funds flows had been negative since the final quarter of 2007. According to AMG Data, mutual funds in the US have been experiencing the largest two-week funds inflows since the year 2000 (before Nasdaq peaked and crumbled). Data compiled by EPFR Global suggest funds flows into global equities this January has been the strongest since late 2007, weeks before equities peaked at all-time highs. Note that the Russell 2000 index, which acts as a barometer for small cap stocks in the US, had already set a new all-time high in the second quarter of 2011. That record high has now been broken. Anecdotal evidence suggests a similar process is taking place in Australia with overall activity in Australian equities picking up into the new calendar year. Here too the obvious irony is that sought-after bank shares, because of their solid and reliable dividends, could have been purchased at much more attractive price levels only a year ago. The key difference between early 2013 and each of the five years that followed the late 2007-correction is, of course, that macro-related risks finally seem to have subsided. The US economy is no longer staring into the abyss. Europe is holding together. China is transitioning into the next phase. Central bankers around the world are feeding their economies with easy money. The reduction in macro-related risks has translated into a marked reduction in overall volatility. Rising prices at low volatility make for a much more accommodative environment to invest in. Hence it shouldn't surprise that the retail investor is finding his way back into equities. But macro-risks and reduced volatility are only one side of the risk ledger associated with equities. There's also still valuations and operational risks and with equities in Australia having rallied a good 15% in 2012 (plus 5% in dividends on average) in a declining earnings climate, this looks like the right time to start asking questions about where the real risks are, on micro-level, and whether risk-reward is as finely balanced as one might suspect? Firstly, history shows it is not unusual at this stage of the bear market-bull market cycle for equities that valuations return to more normalised levels. As valuations for riskier stocks in Australia have been depressed, this normalisation process in itself can have a profound impact in terms of share price appreciation. Investors who have been around for a while might remember the share market going through a similar process in 2003 and 2004. Analysis conducted by Citi suggests the bear market that started in 2007 is now well and truly past its expiry date. In every precedent of the 20th century Australian equities had by now been on the road to recovery, reports Citi. So it's about time! A logical counter-argument is that history is one thing, but the future is something different. Even if equities are now clawing back the remaining losses since 2007, it's not necessarily going to be smooth and straightforward. Besides, share prices for some stocks are already well beyond levels of 2007, while valuations for others look pretty bloated in the absence of earnings growth finally materialising. So what gives? Below is a micro-level risk assessment of the Australian share market as I see it at the start of calendar 2013. In descending order (highest risk first): - Battling Structural Decay Valuations for stocks such as Fairfax Media ((FXJ)) and Harvey Norman ((HVN)) have been thrashed during the bear market and a small improvement in the trading environment or a shift in board policies can potentially have a significant impact on the share price. Observe, for example, how the share price of Fairfax has already rallied from $0.36 in October to $0.55 by January. That's a gain of no less than 52%. Shareholders in Billabong ((BBG)), yet another company in a similar position, have seen the share price surge from $0.74 to above $1 on potential interest from private equity. There's a saying among hardened investors that ultimately all the risks are priced in, plus some, and thus the only way is up. This suggests that "price" eventually reverses "risk". While this may well be true for the share market in general, it is hard to ignore that traditional media companies and bricks-and-mortar discretionary retailers are presently fighting for their lives. Some of today's household names in these sectors may not be around in their present form in five years' time - or not around at all. Changing consumer behaviour, rapidly changing industry dynamics, new technologies, the destructive impact the internet has on traditional business models... the downtrodden, trashed, structurally challenged champions of the 20th century may appear ideal for a quick gain under the right short-term circumstances, but for investors with a medium to longer term horizon: why would you ever consider taking on board this level of risk? - In La-La Land Whether it's a biotech with years of research and development in front of it and no immediate prospects of revenues, or an exploration company sitting on a piece of dirt in the middle of sunburnt nowhere; during times of excessive risk appetite every listed security becomes a viable candidate to attract investors' attention. What the past years have also shown is that risk appetite is a feeble thing. It can disappear just as rapidly as it arrived and when it does disappear, watch share prices dive and volumes dry up. This is the part of the share market where literally everything is possible. It's where dreams are kept alive and where fortunes go missing. If we are heading into a period of elevated risk appetite, no doubt there will be more examples of micro-caps whose name nobody ever heard of, that manage a gain of 1000% in a short time. There will be many more peers that end up going the opposite direction. Explore only with the correct attitude towards risk. - Milestone Companies This is effectively the upgrade section from La-La Land. This is where biotechs upgrade themselves by accumulating positive trials, working towards the development of an approved new medicine. Ditto for miners and energy explorers that manage to get a project on the rails, securing partners, financing and infrastructure to start digging and transporting whatever valuables are located under the surface. Share prices are still very much inspired by investor sentiment, but this becomes less so as deadlines draw nearer and prospects for sales and profits become more tangible. History shows the best gains may well be on offer when all the company has to do is reaching milestones, not after it has become an actual sales and profits generating entity. Shares in uranium producer Paladin Energy ((PDN)), for example, surged as high as $10 in May 2007 when the company was no more than an emerging, potential future producer of uranium. By November last year, Paladin's share price had sunk as low as $0.765. In similar fashion, shares in biotech Mesoblast ((MSB)) reached as high as $9.67 in 2011. The company is today arguably further advanced in its corporate development, yet the share price is now below $6. Other examples are Fortescue Metals ((FMG)) whose share price peaked above $13 in 2007. Today it is trading near $4.50. Lynas Corp's ((LYC)) share price traded above $2.50 in 2011, they are now at $0.63. To be explored only with the correct attitude towards risk. - Come-back and Turnaround stocks This is arguably the section that represents, on a relative risk-reward assessment, the highest potential in the Australian share market. When stocks are abandoned and ignored, valuations fall to depressed levels. Stocks can fall out of favour because of stock-specific reasons. Having a few bad years? A scandal or two? Bad management decisions? The wrong acquisition that comes back with a vengeance? Stocks can also fall out of favour because of sector-related issues. In both cases, depressed share price valuations offer significant potential when the turnaround arrives. One obvious sector that has seen more shade than sunlight these past few years are property developers and building materials stocks. RBA rate cuts and improving data on the US housing market have re-ignited investor interest since the second half of last year and share prices have run hard, making valuations appear full if not overpriced on short term profit expectations. If you are not already on board you now have to bank on upside surprises and there's plenty of potential for such surprises on a 2-3 years horizon. Because profit margins have been under tremendous pressure, a little relief can make a huge difference in years ahead. Under positive scenarios, companies such as Boral ((BLD)) and James Hardie ((JHX)) can potentially double their profits over 2-3 years ahead, but this requires ongoing positive input from housing markets in the US and in Australia. There is the risk the huge potential materialises at a slower pace than currently hoped for by investors. One way to deal with this risk is to adopt an investment horizon of at least 2-3 years. Other obvious come-back stocks are miners and energy companies. Both have had a genuinely rough time since the opening months of 2010 and many of the better quality stocks in these sectors have not generated much in terms of investment returns since 2006 (six long years ago); if they have generated any net returns at all. A small step upwards in Chinese/global demand can make a significant difference for these stocks, at least in the short term. Share prices have rallied double-digits since the trough in 2010, but, again, investors not yet on board have to take the view there's more room for upside surprises and the built-in leverage will do the rest. It's probably good to keep in mind this is not going to be a repeat of 2004-2007, or even of 2009-2010. Assuming otherwise would be reckless. Spot iron ore prices may have surprised to the upside in the short term, they're still heading for sub-US$100/tonne levels in 3-4 years' time. Other commodities that seem poised for surprises to the upside in the short term include copper, platinum and molybdenum. Most commodities will be battling a supply response in the year(s) ahead, if they haven't already (see: coal markets, nickel and mineral sands). This also applies to crude oil prices which have remained in a rather tight trading range throughout 2012. This year and possibly even next year seem poised to deliver more of the same, in the absence of geopolitical stresses or supply disruptions. This means that stock-specific characteristics will be all-dominant for most commodity segments in the share market. Investors should look for producers with strong potential, regardless of product price support, that are likely to achieve project deadlines and production targets at sustainable margins. In the short term the odds seem skewed towards more upside surprises, but there is the risk that future potential might be less, shorter or slower, which can have material impact on share prices. Probably needless to highlight but despite a general bout of optimism since late 2012, the global economy has yet to find a solid footing without support from excess easy money and ultra-low interest rates and these come-back stocks do need ongoing improvements to deliver on their full potential. Not all beaten-down stocks are in the same position just yet. Services providers to the mining sector still have the challenge of a general decline in capex in front of them. A profit warning from gold miner Perseus ((PRU)) at the start of the year and another one this week from Sims Metal Management ((SGM)) -with added write-downs plus impairment charges- can serve as a reminder that risks at the bottom of the valuation table remain elevated still. Conversely, announcements of lay-offs by Boral and Iluka ((ILU)) were received as a positive by investors. - Steady Dividend Payers Most stocks in this category have enjoyed an excellent run from 2011 onwards. Valuations are now as high as they've been post-2007 and on a relative basis, vis-a-vis the riskier stocks, valuations look stretched on historical comparisons. All of this is not a problem if your prime focus lies with solidly growing, sustainable income from dividends, but what if you're not on board yet? There is a risk that, because of elevated valuations, share prices at some point might come off and create a temporary set back in total returns for the short term. Alas, the market is not necessarily going to facilitate a correction tomorrow so that you, latecomer, can also step aboard at a more convenient price level. If you have to get on board now the most logical way to reduce risk is by adopting a longer term horizon. If those dividends keep coming, and grow higher in years to come, the share price will eventually recover and appreciate higher. It's probably the most valuable lesson history can teach us. (see also P.S. below) - In The Sweet Spot Some companies are in an operational sweet spot which virtually guarantees a continuation of strong growth numbers that have rewarded loyal shareholders in years past. Think Breville Group ((BRG)). Think Super Retail ((SUL)), but also The Reject Shop ((TRS)), Amcom Telecom ((AMM)) and Technology One ((TNE)). It's good to keep in mind being in a sweet spot is not going to last forever, but while it does investors at least have a few things less to worry about while enjoying the benefits from continuously strong growth. As the market has by now caught up with the strong growth that is on offer, valuations can be a problem, but then these stocks are unlikely to ever become genuinely cheap again, unless the market sniffs an end to the golden period. Buying on dips seems but the logical strategy if you still want to get on board. - All-Weather Performers It doesn't really matter whether Europe will have a longer drawn-out recession, or whether the RBA will further lower interest rates, or whether China can re-balance its economy on time in the years ahead; there's a small selection of stocks that will perform regardless. It's their second nature. It's what comes naturally for these All-Weather Performers. These stocks won't necessarily end up in the top ten of best performers in any given year, but they do perform and reward shareholders on a consistent basis. Valuations are not cheap, with exception of possibly Retail Food Group ((RFG)), but loyal shareholders know the value of consistent and reliable performance. They can remain confident the years ahead will simply offer more of the same. It has been and still is my view that stocks such as McMillan Shakespeare ((MMS)), Amcor ((AMC)), Domino's Pizza ((DMP)), Ramsay Healthcare ((RHC)) and Coca-Cola Amatil ((CCL)) should be on every investor's radar, all the time. Because inside a long-term perspective, and amidst ongoing macro-economic uncertainties, these stocks offer solid rewards at the lowest operational risk. Just gotta keep an eye on valuations. (This story was written on Tuesday, 22 January 2013 and published on that day in the form of an email to subscribers).

Best Wishes for the New Year to you all. May 2013 bring success and prosperity.

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions. All views are mine and not by association FNArena's - see disclaimer on the website)

P.S. At face value, the ASX200 index in Australia is still some 44% below its peak from early November 2007. However, CommSec's Craig James has calculated that on a dividend adjusted basis, the remaining gap is only 12%, once again highlighting the importance of steady, increasing dividends for investors with a longer term focus.

**** Rudi On Tour in 2013 - I will visit Melbourne in February for a presentation on invitation by the local AIA branche. Title: "The Big Confusion that is the share market". When: Tuesday 19th February 2013. Where: Telstra Conference Centre, Level 1, 242 Exhibition Street, Melbourne - I will visit Perth in March for two presentations on Tuesday March 5 (AIA) and on Thursday March 7 (ASA)

TERMS AND CONDITIONS OF USE, AND DISCLAIMERS

These Terms and Conditions of Use, and Disclaimers constitutes your agreement with News Network with respect to your use of its FN Arena website, its weekday news periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on its website, or anywhere else, from time to time. Please read the contents of this page carefully as it contains important legal information and disclaimers. By entering and perusing the website, reading the Australian Broker Call or the Australian Super Stock Report, or, if you are subscriber, by entering the password protected part of the website, you acknowledge that you have read, understood and accept this agreement.

By accepting this agreement you acknowledge, understand and accept the following:

1. Reference to "FN Arena" and "News Network" means reference to News Network Ltd, its journalists, directors, other employees, affiliates, agents, associates and subsidiaries.

2. News Network Ltd is the owner of the FN Arena website and brand name.

3. Reference to "we" or "us" is reference to News Network.

4. Reference to "this website" or the "FN Arena website" means reference to www.fnarena.com, and includes reference to News Network's weekday news periodical, Australian Broker Call, as well as its monthly periodical Australian Super Stock Report, as well as any other publications (including articles) News Network may publish on this website, or anywhere else, from time to time.

5. Reference to "news periodicals" means reference to News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, as well as any other periodicals News Network may publish from time to time on this website, or anywhere else, from time to time.

6. Reference to "publications" in this agreement means any material, including articles, published or put in print on the FNArena website, or anywhere else, whatsoever, and includes News Network's weekday periodical, Australian Broker Call, as well as it's monthly periodical Australian Super Stock Report, and any other periodicals News Network may publish from time to time.

7. Reference to a "visitor" means, you, a visitor to this website, and includes a subscriber to Australian Broker Call and the Australian Super Stock Report, as well as any other publications or periodicals News Network may, from time to time, publish on this website.

8. News Network is a media company which employs financial journalists to report financial news. News Network's journalists perform the required research and collect the information that is, ultimately, each day, published on this website and in News Network's news periodicals. As is obvious, the process by which the information is collected and delivered to you is a purely journalistic one and, therefore, the comments, opinions and recommendations News Network reports on this website are not the opinions of News Network or any of its journalist or other employees. News Network is ONLY and specifically a matter-of-fact reporter of industry signals suggesting price direction probability of some shares. News Network simply delivers the information – it does not create it.

9. Although News Network obtains the information published herein from sources deemed to be reliable, and given and received in good faith, it cannot and does not guarantee its accuracy. News Network does not take any responsibility either for the financial soundness or for the correctness of statement made or opinion expressed in the data or content reported by News Network, and cannot and does not guarantee the reliability and accuracy of the opinions of the brokers whose opinions, recommendations and forecasts it reports.

10. News Network publishes this website, all publications and its periodicals strictly for convenient personal, non-commercial, educational and informational purposes of its subscribers only. Our goal is to provide the subscribers with a convenient starting point of potentially useful, but not comprehensive, content that can educate or otherwise enhance a visitor's knowledge base and frame of reference.

11. News Network is NOT a stock broker or financial or trading advisor, nor is it an advisory service of any kind, and no advice or recommendations on investments or trading are made nor implied on this website. Nothing contained in this website is intended to be, nor shall it be construed as, advice or recommendation. Any investment or other decisions made by you must be based solely on your own evaluation of the targeted subject for investment, and your financial circumstances and investment objectives, and News Network will not be held liable for any such investments and decisions.

12. It is distinctly understood and accepted that the shares referred to in the FN Arena website, News Network's publications and/or periodicals have not been recommended by News Network. The content and or any comments found of this website, including the content and/or comments published in any publication and/or periodicals published by News Network, do not constitute a recommendation or endorsement by News Network with respect to any company, security, share or investment or any financial or investment product.

13. This website makes no representations, and, to the extent allowed by the law, specifically disclaims all warranties, express, implied or statutory, regarding the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any material contained in the website.

14. Before making an investment decision, you must do your own research and rely on your own examination of the share, and the risk involved, and not on what you read on the FN Arena website, or in any publication or periodical. The content of this website is provided strictly for convenient personal, non-commercial educational and informational purposes only and News Network shall not be held liable for any investment decisions, sales or purchase decisions, which you may have made based on what you have read on this website or in the periodicals published by News Network from time to time, or in any other publications News Network may publish on its website, or anywhere else, from time to time. Anyone who makes investment decisions based on what they read on this website does so at their own risk, and agrees that they cannot hold News Network responsible and/or liable for any loss whatsoever.

15. It is your responsibility to evaluate the completeness, accuracy and usefulness of any content made available on this website. If you are unsure, or in doubt about the meaning of any information, you should consult your financial advisor.

16. News Network does not guarantee any returns on investments made in any share mentioned on this website by the visitors. As any investor well knows, any investment opportunity, strategy or concept involves a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. News Network strongly suggests that you consult your own financial advisors regarding the soundness of any intended investments, strategies or concepts, and discuss with such advisor your individual investment needs and goals. You may also wish to consult the broker who expressed the opinion we have reported on in the news periodicals we publish.

17. News Network shall not be held liable to any visitor of the FN Arena website, or any reader of its periodicals and/or publications, or anyone else who may have relied on this website, directly or indirectly, for any inaccuracies in the printed material found on the FN Arena website, in the periodicals and/or other publications, any typing errors, omissions, interruptions, timeliness, completeness, deletions, defects, failure of performance, computer virus, communication line failures, alterations of, or use of any content herein, regardless of cause, for any loss or damage resulting therefrom.

18. Under no circumstances, including, but not limited to negligence, shall News Network be liable for any direct, indirect, incidental, special or consequential damages that result from the use of, or the inability to use, the FN Arena website, and any or the News Network's publications and/or periodicals.

19. As a condition of use of the FN Arena Website, News Network's publications and periodicals, you agree to indemnify News Network and all those affiliated with it from and against any and all liabilities, expenses (including legal costs) and damages arising out of claims resulting from your use of the FN Arena website, News Network's publications and periodicals. If you are uncertain about this agreement or the contents of the FN Arena's website, or are dissatisfied in any shape or from, with the content of the FN Arena website, or any of the publications or periodicals, or you do not agree with these terms and conditions, your sole and exclusive remedy is to discontinue using the FN Arena website, News Network's publications and periodicals.

20. News Network may, from time to time, publish advice, opinions and statements of various third parties, other then the ten stock brokers, and various other information and content providers. News Network does not represent or endorse the accuracy or reliability of any advice, opinion, statement or other information provided by these third parties. Reliance upon any such opinion, advice, statement, or other information is at your own risk.

21. The FN Arena website may contain links and pointers to websites maintained by third parties. News Network does not operate or control in any respect any information, products or services on such third-party websites. Third party links are included solely for the convenience of visitors, and do not constitute any endorsement by News Network of any products or services provided by the third party link owners or operators. News Network has no control over any websites that we might link to and does not take responsibility for their quality, content or suitability.

22. News Network is not responsible for claims made by advertisers on the FN Arena website or in any of its periodicals. Such advertisements are included solely for the convenience of visitors, and do not constitute any endorsement by News Network of any products or services advertised. News Network does not check the accuracy of the statements made by the advertisers. You assume sole responsibility for the access and use of third party links and pointers from the FN Arena website, as well as any purchases you may make from those third parties (including advertisers).

23. All the content, information and material made available on this website are provided to you "as is" and without warranty of any kind from News Network whether express or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose, title, non-infringement, security or accuracy, nor does News Network endorse or take any responsibility for the accuracy or reliability of any opinion, advise or statement made through the FN Arena website, its periodicals, or for making good all or part of any loss and/or damage that may have been caused by the visitor's reliance on any information, advise, product or service obtained from a linked website.

24. News Network is not liable for any copyright infringements incurred by any outside content or information contributors, or by third parties who have links to this website, or advertise on this website.

25. News Network reserves the right to make any and all changes to the FN Arena website, including the publications and periodicals, at its sole discretion without notice to you. News Network reserves the right to deny access to this website or its information to anyone at any time.

26. This agreement shall be deemed to include all other notices, policies, disclaimers, and other terms contained in the FN Arena website, provided, however, that in the event of a conflict between such other terms and the terms of this agreement, the terms of this agreement shall prevail.

27. News Network shall have the right, at its discretion, to change, modify, add or remove terms of this agreement at any time. Changes shall be effective immediately. Notification of any such changes shall be made herein, therefore, you are strongly advised to read these terms each time you wish to access the FN Arena website or any periodical.

28. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or viewer interface design or logos. The entire FN Arena website, including the publications and periodicals, is subject to copyright with all rights reserved. The information contained in the website, including the publications and periodicals, shall not be published, rewritten for broadcast or publication or redistributed in any medium, or for any other reason whatsoever, without prior written permission from News Network.

29. All original content is the copyrighted property of News Network.