



Economic & Market Update

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Agenda



- 'Green shoots' & economic reality
- Don't confuse financial markets with the economy

The world has some serious issues – US and UK



- Too much unregulated credit caused a global housing bubble and rising default levels.
 - Prices down 20% across the US, 40% in some areas.
- More than 30 US banks have gone broke in 2009. Chrysler has filed for chapter 11 bankruptcy and GM and Ford need billions to survive.
- US unemployment has hit a 25 year high of 8.5% and is likely to peak at 9% to 10%.
- UK: Consumer Confidence 47, house prices -14.7% and unemployment 6.7%.

Source Bloomberg

The world takes unprecedented action

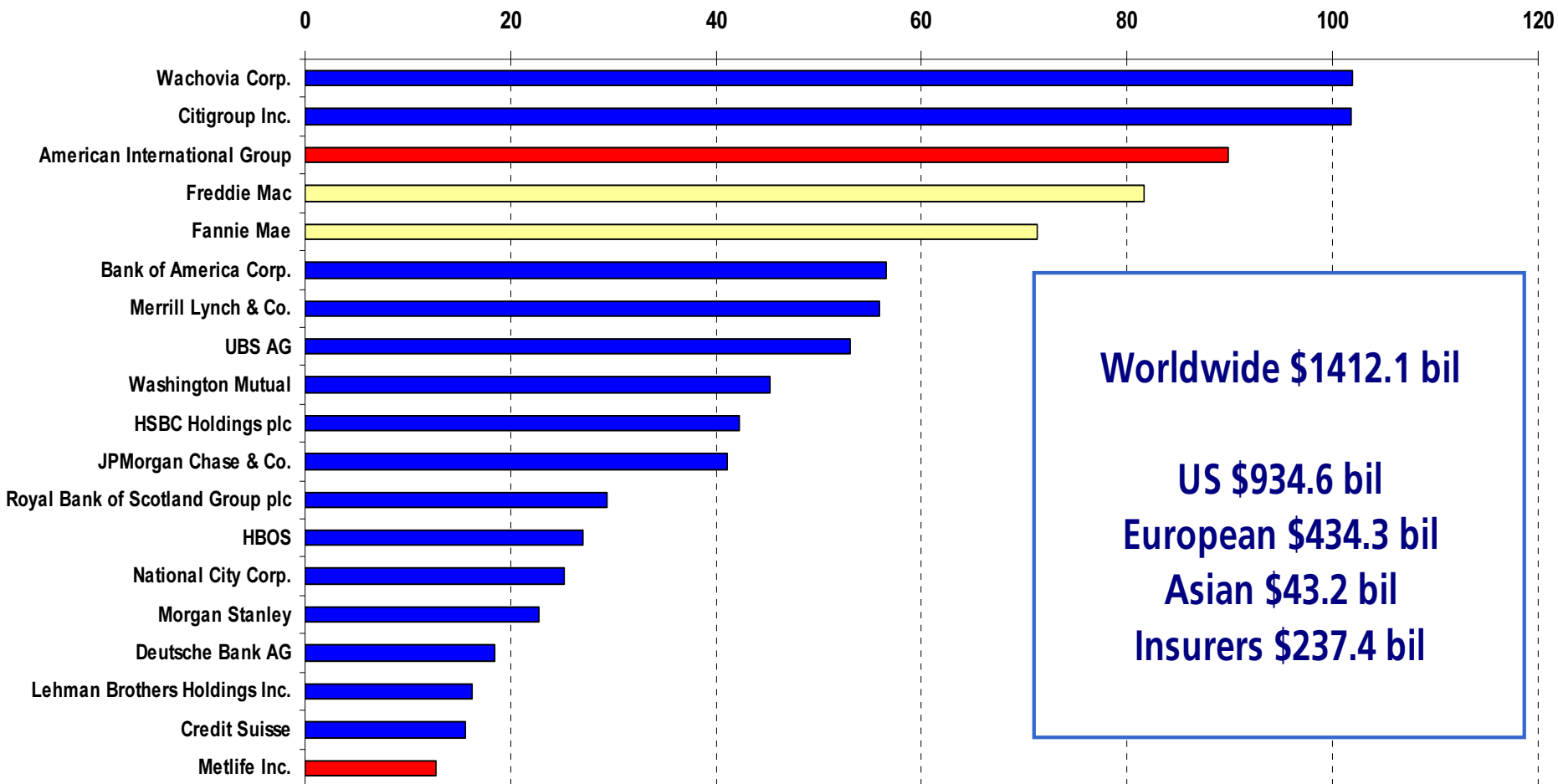


All Western governments have moved to:

- provide some level of guarantee on depositors' funds.
- purchase some amount of impaired securities from institutions under stress.
- some form of nationalization, e.g. US government taking equity stakes in some banks.
- interposing their central banks to provide certainty around the lending between banks.

Source: Bloomberg

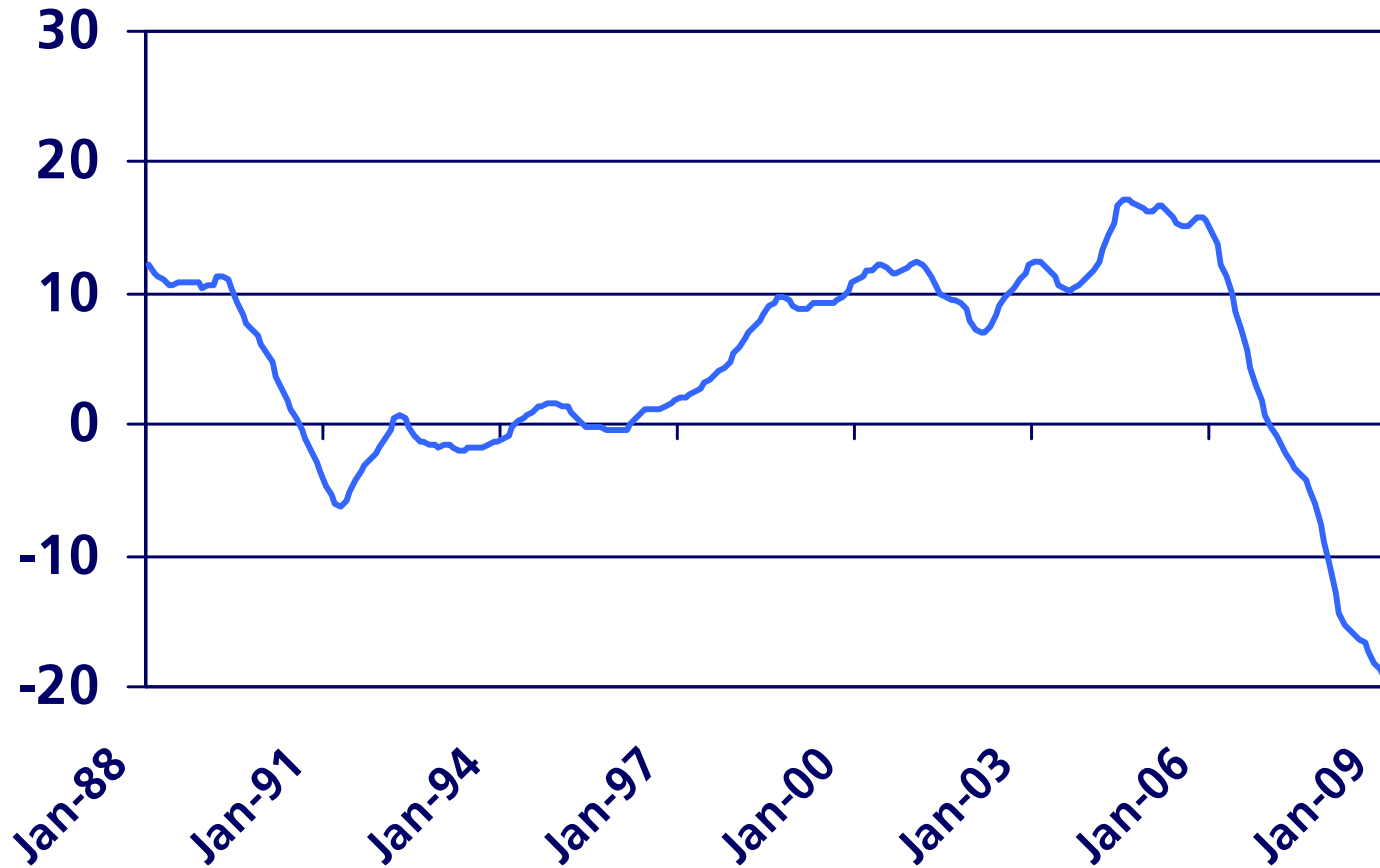
Credit losses & writedowns



Source Bloomberg

US House Prices

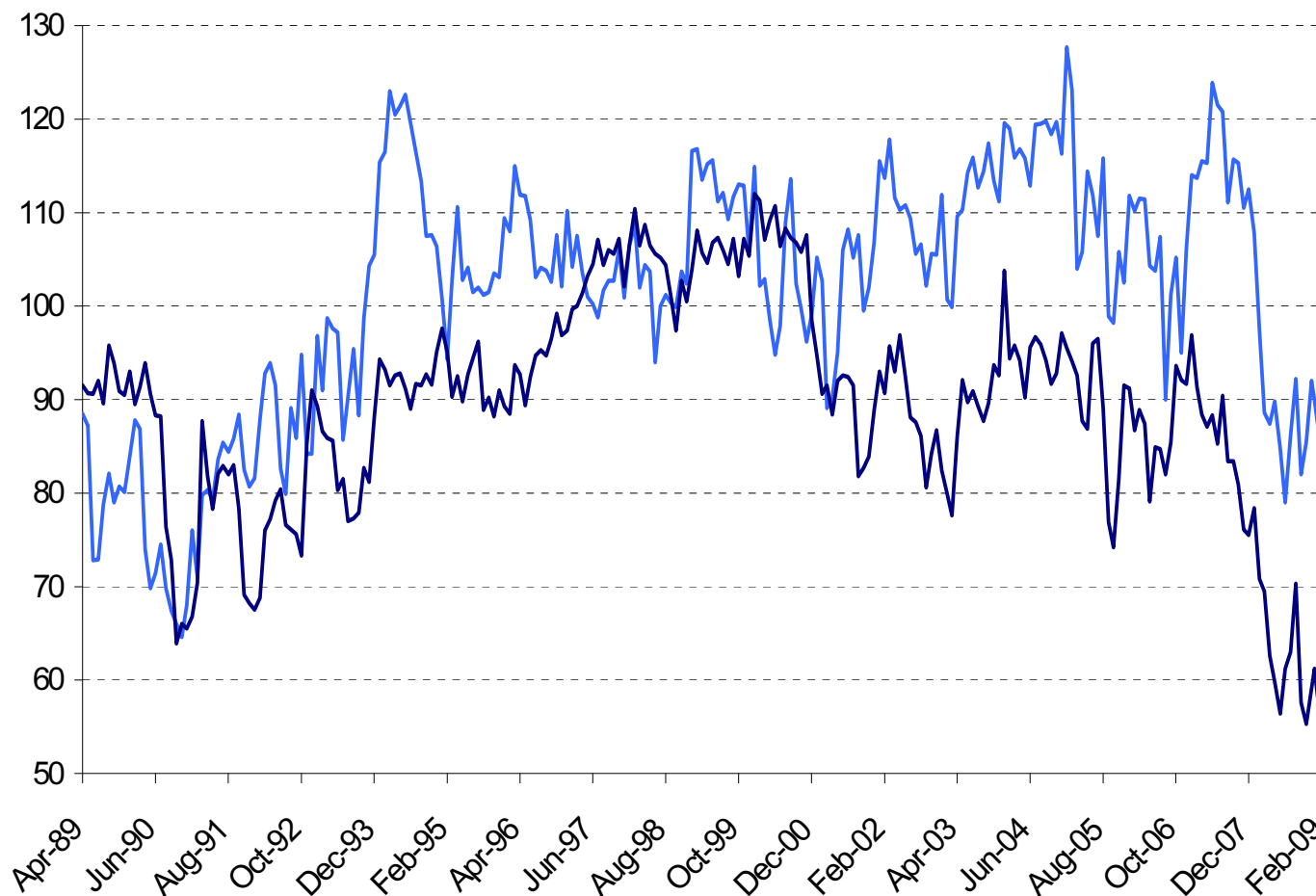
Little sign of a recovery



Debt and unemployment demolish confidence



Consumer Confidence



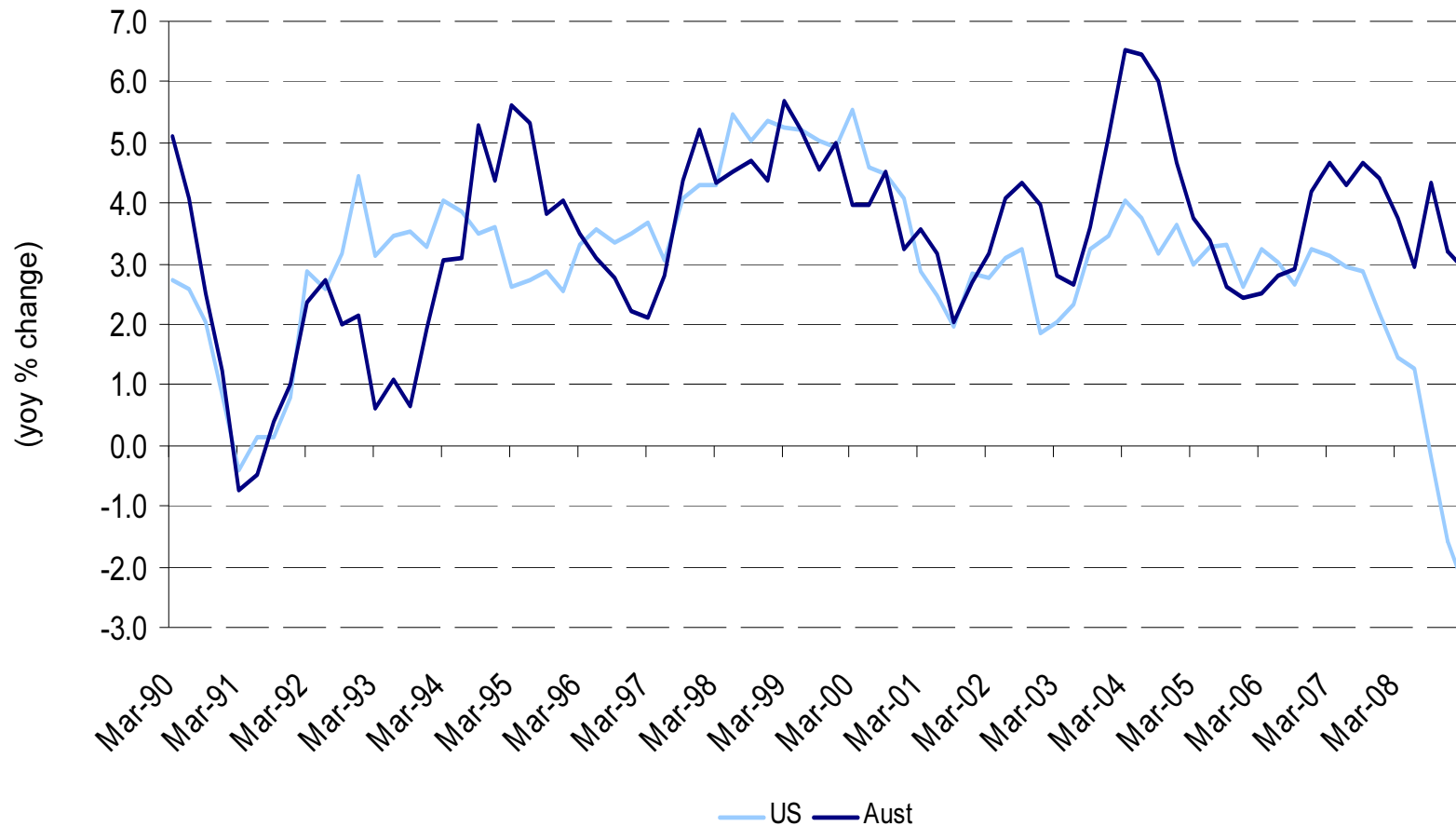
US - Michigan sentiment
Australia - Melbourne Institute

— Australia — US

Source: Goldman Sachs JBWere; Bloomberg

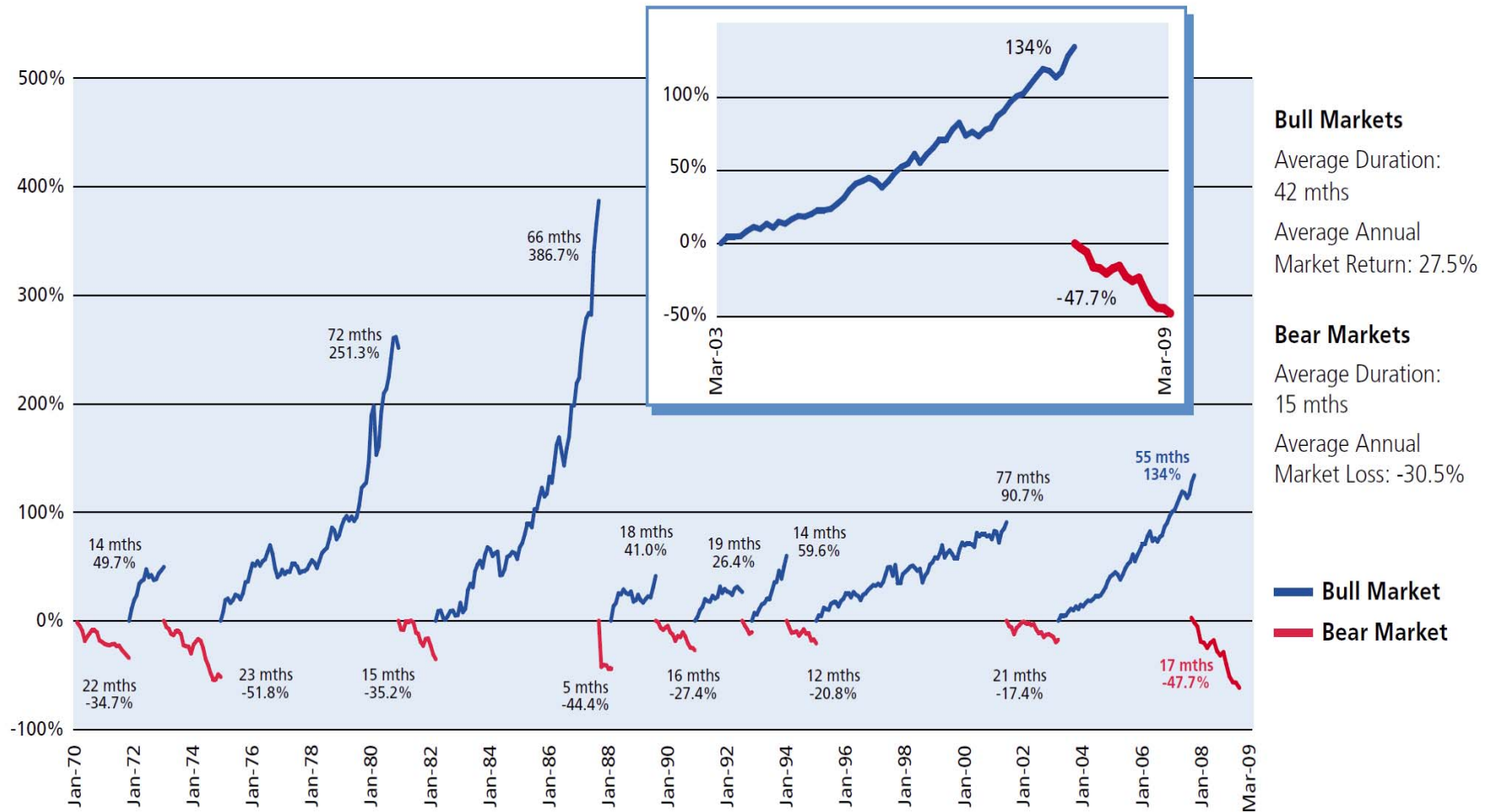
Paradox of thrift?

Consumption expenditure



Source: Goldman Sachs JBWere

Don't confuse the economy with financial markets

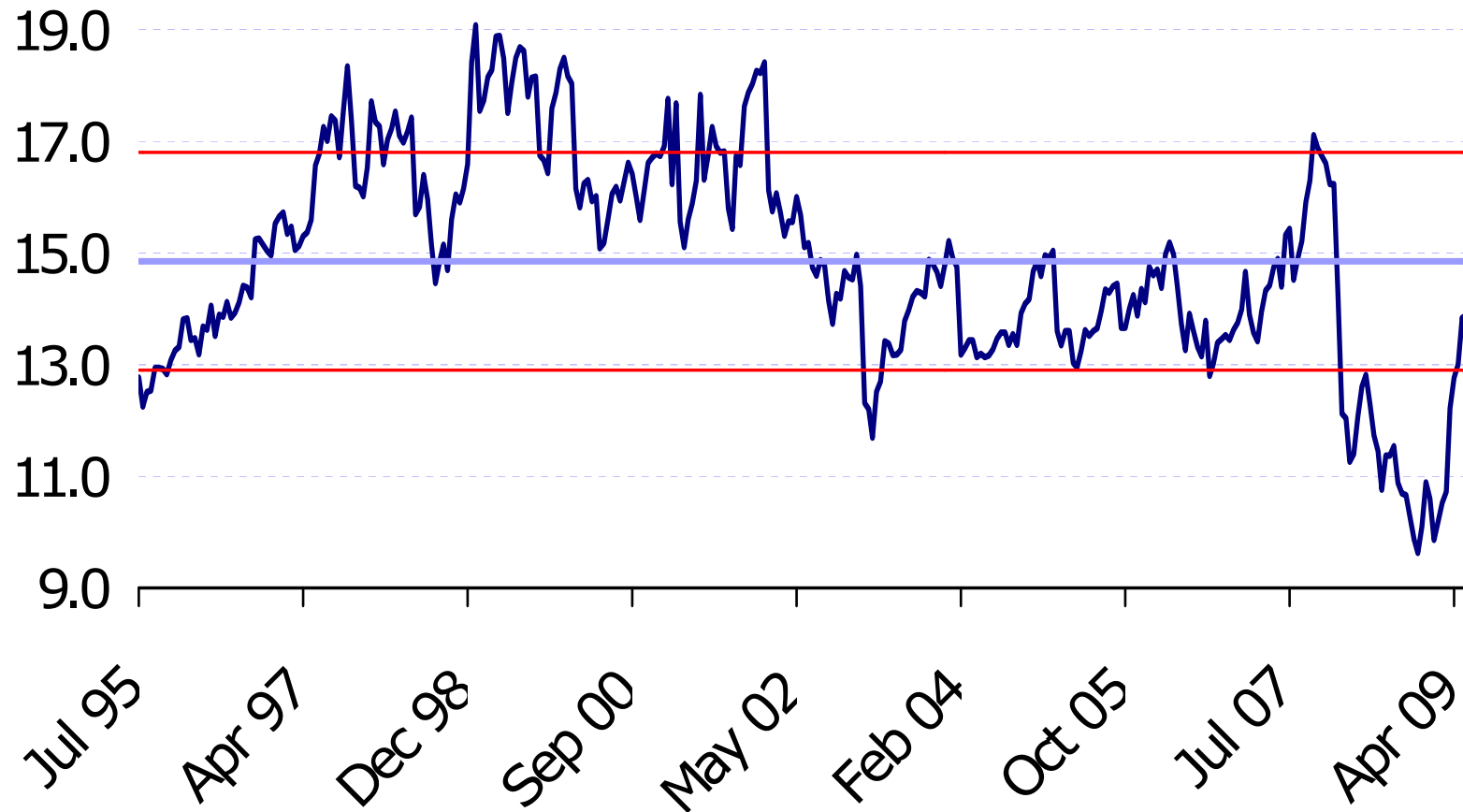


Australian equities

- Have rallied from pessimistic levels



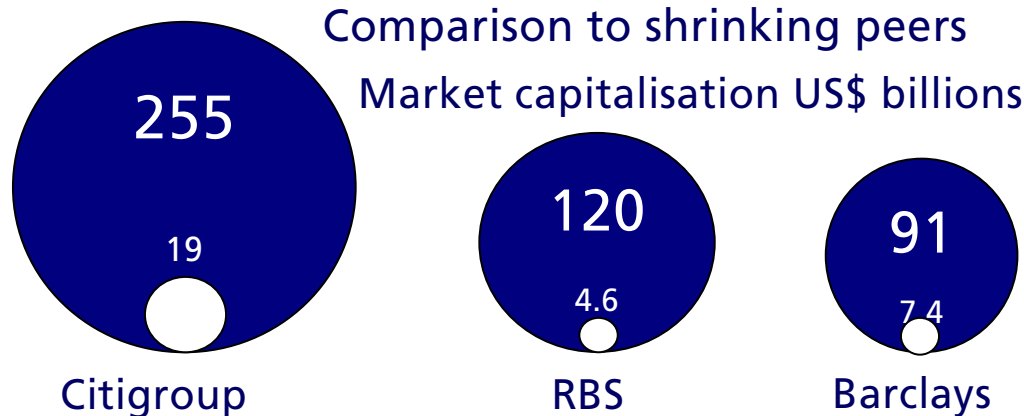
ASX 200 prospective PER



Australian financials



- Our banks are well rated and capitalised
 - 'Big 4' all have AA credit rating
 - Tier 1 ratios bolstered by end of year capital raisings
 - Accessing wholesale overseas markets using Government guarantee



Shock and ore

Iron ore spot price (US\$/t)



- Iron ore prices are down almost 60%.
- China remains a long-term story.
- Though debate rages on foreign investment.

Global rebound



	% Rally	Date of low	Last	Recent low	Fall from 2007 high
ASX 200	20%	10 March	3738	3120	-54%
Dow	28%	6 March	8277	6469	-54%
S&P 500	33%	6 March	887	666	-58%
FTSE	26%	9 March	4365	3460	-49%
Japan	33%	10 March	9342	7021	-62%
Hong Kong	50%	9 March	16954	11344	-65%
China	44%	31 Dec	2609	1814	-70%

As at 25 May 2009

Source: Bloomberg

Investment themes

- 'Assets of Choice'



Market leaders; Strong cash flows

Microsoft

- Software leader, dominates market yet trades at substantial discount
- One of the most consistent generators of operating cash flow in the S&P500 (2007; \$20bn)
- Share buybacks and consistent dividends

Procter & Gamble

- Has one of the largest and strongest portfolios of trusted brands, eg Gillette & Duracell
- Top 24 brands each generated more than \$1bn in sales in 2008
- Has paid a dividend every year since 1890

Source: Bloomberg

Investment themes

- 'Intergenerational Assets'



Sustainable; Assets to meet needs of future generations

ABB

- Power & automation technology leader
- Generates over \$1bn in cash from operations
- Minimal gearing – outstanding debt can be paid from existing cash

Hochtief

- International provider of construction services & integrated infrastructure projects
- Strong, diversified order book
- Conservative balance sheet and strong management

Source: Bloomberg

Where will we be in 12 months?



- US and Europe have endured a serious recession and recovery will be slow.
- Australian economy will not avoid recession:
 - unemployment is likely to be more than 8%
 - interest rates may still be cut below 3% if necessary
 - housing prices will remain weak
- But stock markets will stabilize and have the potential to rally substantially.
- Industry consolidation will deliver a strong market position to the survivors.

Thank you

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