**NEXT Daily – 25 June 2010**

**Overseas**

The **Dow Jones** fell 145 pts or 1.41% to 10,152.80 (YTD -2.64%), **S&P 500** fell 18 pts or 1.68% to 1,073.69 (YTD -3.71%) and the **NASDAQ** fell 36 pts or 1.63% to 2,217.42 (YTD -2.28%).
The **FTSE** fell 78 pts or 1.51% to 5,100.23 (YTD -5.78%), **Nikkei** rose 4 pts or 0.05% to 9,928.34 (YTD -5.86%) and the **Hang Seng** fell 123 pts or 0.59% to 20,733.49 (YTD -5.21%)
Oil rose $0.18 to $76.53 a barrel.
Gold rose $3.30 to $1,240.65 an ounce.
Base metals were stronger with Copper up 2.76% to $302.39, Zinc rose 2.60% to $83.54 whilst Aluminium was up 1.43% to $87.82 and Nickel rose 0.65% to $876.66.
BHP ADR's trading at $39.27 vs the Aussie close of $39.65.
SPI 200 Futures closed down 63 pts at 4,424.

**Ideas**

**US Equities retreated last night** amid fresh concern for a double dip recession. A 1.7% decline in the S&P 500 Index revealed the gauges longest losing streak in 7-weeks, as the cost to protect from a Greek default surged to a record. A slightly better-than-expected read of initial jobless claims, failed to provide a boost to sentiment, while volume spiked on selling ahead of tomorrows Russell Investment Index's rebalancing. The CBOE Volatility Index jumped above 29, or more than 10% while treasuries extended gains, after strong demand for an auction of 7-year notes.

**After yesterdays ousting of Kevin Rudd Royal Bank of Scotland (RBS) has looked closer at the key policy announcements to date from our new PM, Julia Gillard. The government will enter into negotiation (as opposed to consultation) with the mining industry regarding the RSPT, while still returning the budget to surplus by 2013. RBS look at options for achieving this and the stocks potentially impacted. RBS said:**

> **RSPT… policy problem number one** In her first press conference, Australia's new PM has indicated a clear change of thinking regarding the resources super profits tax (RSPT). The government door is now open for 'negotiation' regarding the tax as opposed to the 'consultation' process that has occurred so far. To us, this suggests meaningful change to the policy is possible, while remaining true to the ideal that all Australians are entitled to a fair reward from the nation's mineral resources.
> **Commitment to a federal budget surplus by 2013 retained…but it could be tricky** The new PM also reiterated the Government's commitment to return the federal budget to surplus by 2013. However, to meet this objective means matching any RSPT concessions granted, which reduce future tax revenues, with matching policy (and revenue) adjustments.
> **Policy options include: cancelling cuts in the corporate tax rate or the super increases** The key policy announcements that accompanied the RSPT and which are therefore the most likely target for similar offsetting amendments include the: 1) proposed cuts in the corporate tax rate; 2) increase in super guarantee rate to 12%; 3) interest income concessions; and 4) increase to the low income tax offset. Our analysis shows that cuts in all areas would be needed to plug any significant RSPT holes. **Miners, energy and D&C stocks winners; asset managers most likely losers** Our view has consistently been that some form of RSPT compromise would be reached. Clearly, the worst-case RSPT scenario that the market had been factoring in will not now play out. Therefore winners should be the miners, energy

plus the D&C and engineering stocks (as, presumably, recently 'cancelled' projects are back under consideration). Possible losers include the asset managers due to a potential wind back of various budget concessions

**Credit Suisse (CS) have increased their house gold price assumptions following a scheduled mid-year review. CS changes have seen increases of;** 2011 +11% to US$1,105/oz, 2012 +17% to US$1,180/oz, 2013 +12% to US$1,120/oz and LT unchanged at US$850/oz. CS also made the point that gold equities have underperformed physical gold as it has risen above US$1,200/oz and note the larger cap names within the sector are currently cheap relative to historical pricing on all valuation metrics. Assuming the successful takeover of LGL by NCM the universe of larger produces in the Australian market is drastically reduced. CS has applied their gold price upgrades to their universe of gold stocks and make the following comment:

- **Andean Resources (AND)** . A$4.50/sh target price and OUTPERFORM rating remain unchanged. BFS update before end of June 2010 should help us firm up our numbers. We expect our capex/opex forecasts to be comfortably met.
- **Avoca Resources (AVO)** . **Target price increased to A$2.50/sh** (from A$2.20) and UNDERPERFORM rating maintained. As the highest-cost producer within our coverage, AVO offers strong earnings leverage in a rising gold price. We are meeting with management next week and may further refine our modelling thereafter if we can be convinced about life extension prospects.
- **Lihir Gold (LGL)** . **Target price increased to US$4.82/sh** (from US$3.65) and **rating increased to OUTPERFORM**. The new target price is now linked to our NCM target price and assumes the merger proceeds.
- **Newcrest Mining (NCM)** . **Target price increased to A$47.00/sh** and OUTPERFORM rating unchanged. NCM remains our preferred gold exposure, with a world-class asset portfolio of large, long-life, low-costs production assets, each with significant potential for mine life extension.
- **OZ Minerals (OZL)** . Target price of A$1.30/sh and OUTPERFORM rating unchanged, making OZL our preferred copper exposure on a valuation basis, albeit more by default of our current ratings than a table-thumping buy call. OZL remains a copper producer, with gold leverage constrained by revenue dominated by copper and by ~one-third of the valuation being in cash.
- **PanAust (PNA)** . Target price of A$0.65/sh and NEUTRAL rating unchanged. PNA's gold exposure is in a brief hiatus following depletion of the gold heap leach operation at Phu Kham copper mine and prior to the ramp-up of gold production from the development and commissioning of the 100koz/yr Ban Houayxaiu gold-silver operation.

**Research**

Macquarie Group Limited ($40.65) – With MQG providing an update highlighting recent market conditions, RBS and Deutsche have retained a BUY whilst UBS, GSJB Were and JP Morgan maintain a HOLD. Deutsche has a price target of $63.00.
Orica Limited ($25.39) – Following recent share price underperformance, Credit Suisse has **upgraded** to a BUY with a price target of $31.20.
Qantas Airways Limited ($2.36) – With strong growth in domestic capacity, JP Morgan has **upgraded** to a BUY with a price target of $3.00.
Growthpoint Properties Australia ($1.80) – With GOZ targeting significant growth via the acquisition of retail, office or industrial assets, Deutsche has **downgraded** to a SELL with a price target of $1.90.