



Iron Ore - 'Stronger for Longer'

BUY

2008 has started where 2007 left off..... an environment where many earnings are uncertain and we are looking to focus on valued, transparent and low P/E earning stocks. We feel it is the time to refocus our portfolio's to stocks which are supported by the China decoupling theory and in particular the resources sector which are underpinned by chronic demand and supply imbalances. Our picks in the underlying commodities are uranium, coking coal and iron ore. Japan recently signed long term agreements at a 65% increase in the iron-ore contract price. This has set the tone for the ongoing discussions between the likes of Rio/BHP and the foreign steel mills.

When arriving at a stock selection, we pay considerable attention to technical, quantitative and fundamental criteria. However, another indicator we cannot continue to ignore are the statistics. Here are some that need little explaining:

- China accounts for 50% of the world's iron-ore consumption and approximately 70% of the world's steel.
- For the last 6 years, China has contributed 35% of the world's economic growth compared to the 10% of the US.
- BHP believes that there will be a shortfall in the supply of iron-ore until 2015.
- China's iron-ore import is at an all time high and its consumption per capita is 320kg compared to Japan's of 600kg. We believe that China and India's consumption has some way to run and both are in their infancy stage.
- Iron-ore contract price has increased by over 190% over the past few years. The capacity to produce iron-ore has only increase by a little over 25%.
- The likes of Rio, BHP and CVRD control the overwhelming majority in the iron-ore sector and the next big company coming on the production line will be Fortescue Metals (FMG).
- China has 13 000 new cars joining the road daily.
- 500 coal powered fire stations are being built over the next ten years to try and satisfy the insatiable demand for electricity. That's 1 new station open every week!

In conclusion, our recommendation is that if you are a portfolio holder, you need to own at least one of the diversified miners, if not both **BHP** and **RIO**. **FMG** is obviously a more speculative play but offers better leverage after its share split of 1 to 10. We also have a bullish view on **MGX** (Mount Gibson Iron) with a target price of \$4 and a long term view over \$6. **MMX** is another stock that has been a past recommendation and which we continue to hold for the longer term.

If you have any queries, please call the desk on 07 5585 4200 to place your trade.

For Equities and Derivatives recommendations and advice please contact us on +61 (0)7 5585 4200 (Australia).

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