Weekend Australian
Saturday 31/12/2011

ASX SHEDS 14.5 PER CENT FOR THE YEAR

Signs of hope amid market gloom

Experts say stocks have been oversold and will rally in the second half of 2012

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MARKETS

MARKET watchers expect an improved 2012 after the local bourse's abysmal showing in calendar 2011 but warn that trading may get worse before it gets better as the euro crisis unfolds.

The S&P/ASX 200 index yesterday lost 14.5 points to close at 4056.6, taking its loss for the year to 14.5 per cent, after a 2 per cent loss in 2010, a 28 per cent rebound in 2009 and a GFC-driven loss of 41 per cent in 2008.

The closing level was not far above its low for the year of 3863 on September 26 but well off the high of 4971 on April 11.

Despite our safe-haven status, Australia fared worse than the global market average, which was down 13 per cent, and was easily outperformed by the strife-prone US, the only major market to show growth.

With one trading session to go, the benchmark Dow Jones industrial index will register a surprisingly robust 6 per cent gain this year.

Rather than buttressing the local market from weak industrial sectors, the metals and mining sector plunged 25 per cent as commodity prices softened on China slowdown fears.

"By most measures 2011 was a year to forget in Australia," said analyst Grant Craighead of Breakway Investment Group.

It can be summed up as a year of disasters, including floods, earthquakes, Middle Eastern civil strife and the Europe and US public debt woes.

"Fears of another global financial crisis and a return to global recession have resulted in a rough ride for share markets," AMP Capital Investors head of investment strategy Shane Oliver said.

But amid the angst about Europe and doubt's about China's resilience, there is rising optimism about signs of a US recovery.

"We expect a muted Australian interim reporting season in February and subsequent 2012-13 earnings downgrades, which should see markets under pressure through this period," said John Deakin-Bell, Deutsche Bank's managing director (markets).

"Post March, we expect growth in China to stabilise and possibly re-accelerate as policy easing kicks in."

Bizzell Capital Partners associate director Peter Wright said the market had priced in "a pretty dire outcome" in Europe, "which while being imminent for most of the year has yet to find form in the shape of the jaw-dropping GDP contractions we saw at the end of 2007".

He said that "while not discounting the seriousness of the threat" investors had priced in "near worst-case scenarios".

"My suspicion is, the reality in Europe will fall short of current predictions and we will enjoy a reasonable but not spectacular year," he said.

Citi equities strategist Tony Brennan said local shares were trading at around 10 times 2011-12 earnings, well off the historical average of 14-15 times.

"Challenges still abound and economic growth seems undoubtedly set to slow in 2012, but markets anticipate this, so they are likely to be receptive to signs that outright global recession may be avoided," he said.

Mr Brennan expects a recovery "reminiscent of 2009, if perhaps more muted". He forecasts the ASX 200 to recover to 5000 points by the end of next year, a 25 per cent improvement. Deutsche Bank forecasts the index to recover to 4700 points.

Wilson Asset Management's Geoff Wilson expects the Australian dollar to weaken as China falters and he also sees little US growth. "The big risk at the moment is having any confidence in earnings," he said.

But he believes the market is oversold and will rally in the second half. "The big picture is the market is oversold — on any long-term view it is cheap," he said.

"We are going through a decade of deleveraging. World growth is going to be lower and PEs (price-earnings multiples) are going to be lower."

Analysts note that industrial sector earnings are still growing, despite the rash of profit warnings which gained pace during the October AGM season.

They also point to improving — and surprisingly strong — economic indicators from the US.

"The outlook from the US economy is probably better than the market expects," said MyClime private client director Paul Zwi. "Positives emanating from what is still more than a fifth of the world economy include a possible US housing recovery, a

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Signs of hope amid gloom

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manufacturing turnaround and good news on exports and on the energy front."

Commonwealth Securities says only three of the 21 industry sectors gained this year, led by the Telstra-heavy telco index (up 18.7 per cent), the defensive food, beverages and tobacco (4 per cent) and utilities (3 per cent).

The worst performer by far was consumer durables and apparel, down 64 per cent, followed by retail (down 41 per cent) and diversified financials (29 per cent).

Of the individual ASX200 stocks, the worst performers were coal processing play White Energy (down 88 per cent), Energy Resources Australia (83 per cent) and steelmakers BlueScope Steel and OneSteel, down 78 per cent and 72 per cent respectively.

Among the few highlights, Sigma Pharmaceuticals returned 100 per cent. Iluka Resources and Aurora Oil & Gas soared 69 per cent and 52 per cent, respectively.

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GLOBAL MARKETS

US	▲ +6.13%
NEW ZEALAND	▼ -1%
UK	▼ -5.6%
SPAIN	▼ -13.91%
AUSTRALIA	▼ **-14.5%**
GERMANY	▼ -15.4%
FRANCE	▼ -17.8%
JAPAN	▼ -17.5%
HONG KONG	▼ -19.8%
CHINA	▼ -22%

Source: Bloomberg

TOP 10 STOCKS

SIGMA PHARMA	▲ +99.07%
ILUKA RESOURCES	▲ +68.11%
AURORA OIL & GAS	▲ +51.34%
MESOBLAST	▲ +48.17%
BEACH ENERGY	▲ +41.95%
REGIS RESOURCES	▲ +40.82%
ENVESTRA	▲ +37.50%
SILVER LAKE	▲ +28.09%
QR NATIONAL	▲ +25.74%
TELECOM NZ	▲ +25.42%

WORST 10 STOCKS

WHITE ENERGY	▼ -88.27%
ERA	▼ -83.45%
BLUESCOPE	▼ -79.03%
BILLABONG	▼ -78.20%
ONESTEEL	▼ -73.48%
PALADIN	▼ -72.21%
DART ENERGY	▼ -68.21%
KAGARA	▼ -68.13%
GOODMAN FIELDER	▼ -65.74%
APN NEWS	▼ -64.05%

SECTORS

TELECOMS	▲ +18.3%
UTILITIES	▲ +2.97%
RETAIL	▼ -41%
MATERIALS	▼ -25.3%
IT	▼ -22%
CONSUMER DISCRETIONARY	▼ -21.8%
ENERGY	▼ -20.4%
INDUSTRIAL	▼ -10.6%
HEALTH	▼ -10.5%
FINANCIAL	▼ -10.45%

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