

INSIDE

Overview

Investors should prepare themselves for lower returns and more volatility.  
**Tim Findlay**

Commodities

By 2010, the boom will be fading but the party's still in full swing over the next four years.  
**Stephen Wyatt**

Small caps

The smaller they are the harder they fall.  
**Richard Hemming**

Resources

Everyone jumped on the bandwagon this year and junior stocks led the charge.  
**Jo Clarke**

IPOs

Head winds blowing for companies planning to list.  
**Henry Byrne**

Japan

Signs are emerging that foreign investors are heading for the exit.  
**Greg Earl**

China

Economic growth continues to pick up despite forecasts of a slowdown.  
**Colleen Ryan**

Wall Street

Investors torn between slowing growth, inflation and rising interest rates.  
**Robert Guy**

M&As

The urge to merge.  
**James Hall**

Currencies

More confusion ahead for foreign exchange markets.  
**Corinne Lim**

Bassanese

Higher interest rates are largely pre-emptive.  
**David Bassanese**

Bonds

Rising bond yields to threaten equity market valuations.  
**David Bassanese**

Dunstan

Go with the herd or play the contrarian game.  
**Barrie Dunstan**

Round Table

Four experts give their take on this year and next.  
**Richard Hemming**

Top 200

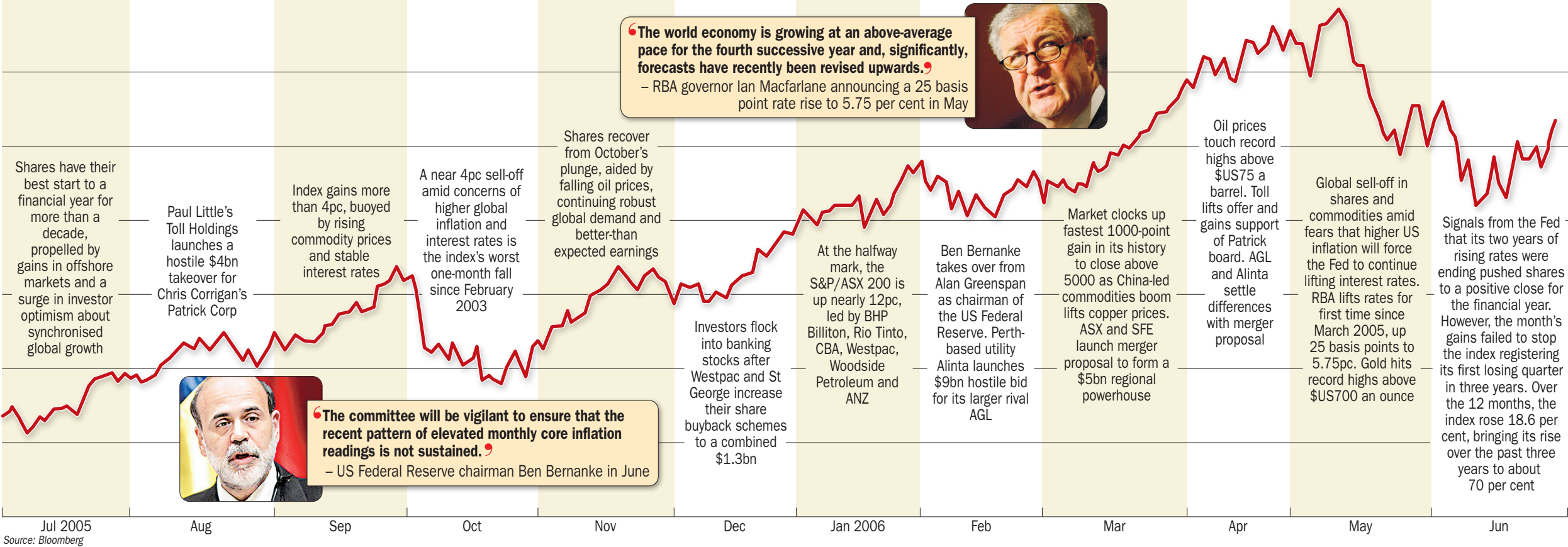
The best and worst stocks in the S&P/ASX 200

Chanticleer

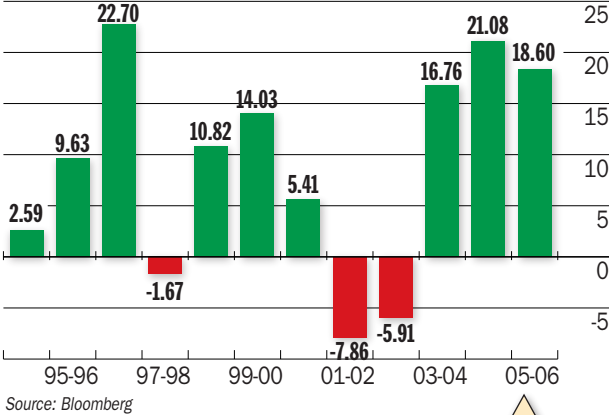
Don't expect a repeat performance.  
**John Durie**

Australian equities

S&P/ASX 200 over past 12 months Daily

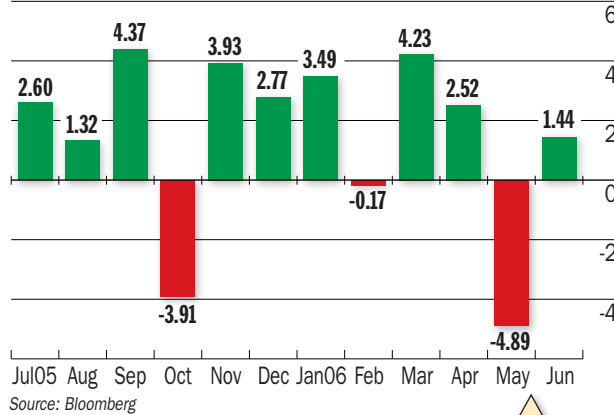


S&P/ASX 200 during past financial years



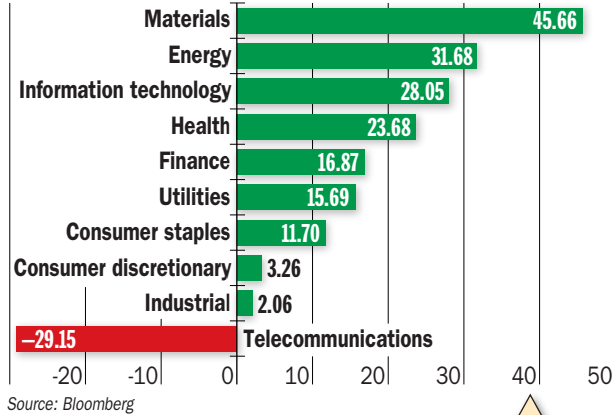
The S&P/ASX 200 Index notched up a hat-trick of double-digit annual gains with a 16 per cent-plus rise, above the decade average of 8.9 per cent excluding dividends

S&P/ASX 200 monthly changes



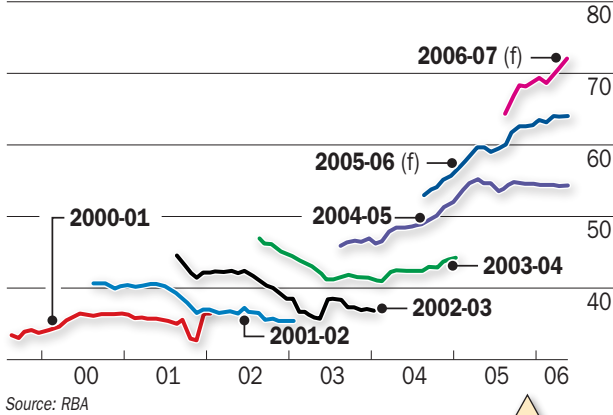
The index recorded four negative months, the most since 2003-04, which meant its average monthly return was almost 1.5 per cent

S&P/ASX 200 sectors during past 12 months (% change)



Record high prices for metals and oil led to the materials and energy sectors being the top performers while the Telstra-dominated telco sector was the worst

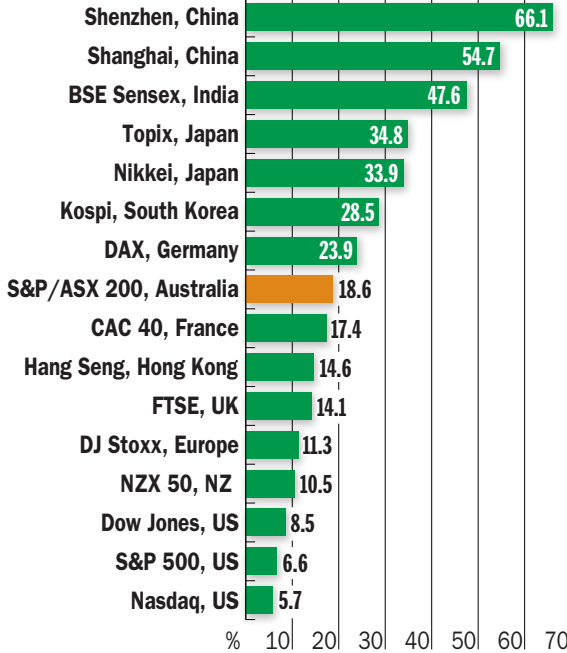
Earnings per share



Despite fears of rising interest rates and falling domestic demand, earnings per share growth is strengthening and in 2006-07 is forecast to be double that of 2001-02

Global equities

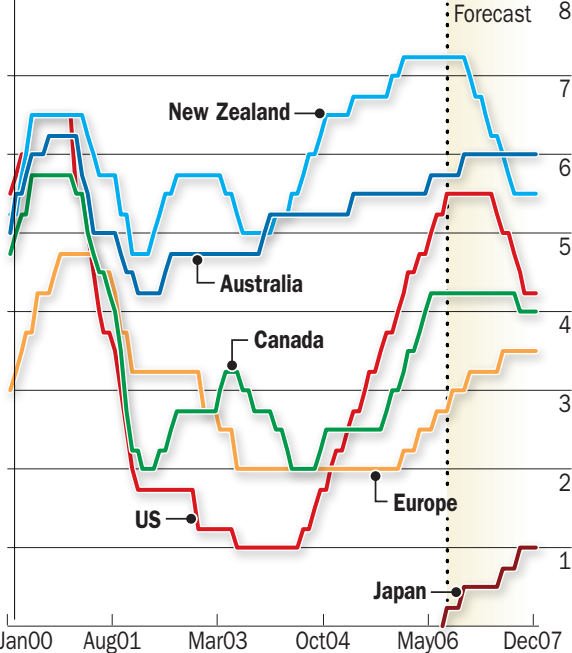
12-month performances of global sharemarkets (%)



The S&P/ASX 200 Index finished well behind sharemarkets in China, India, Korea and Japan but managed to outperform most American and European sharemarkets

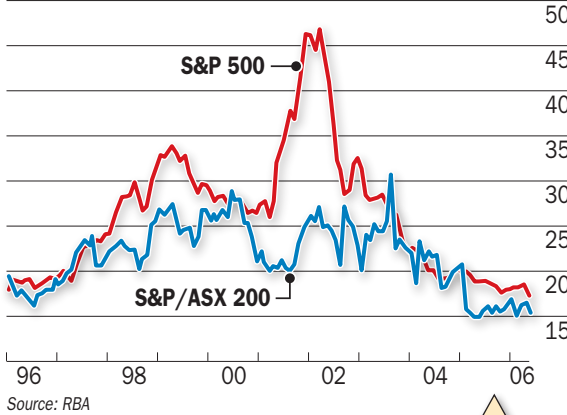
Interest rates

Global rates



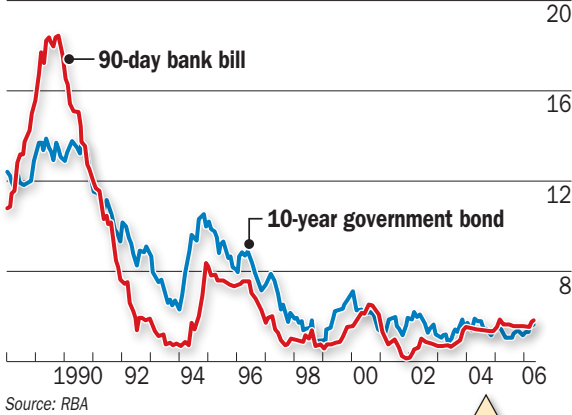
The US Federal Reserve raised rates for the 17th consecutive time and Japan flagged an end to its six-year policy of zero interest rates as central banks around the world lifted official rates

Australian and US P/E ratios



While share prices rose strongly, earnings per share growth was strong enough to keep Australian shares relatively cheaper than US shares

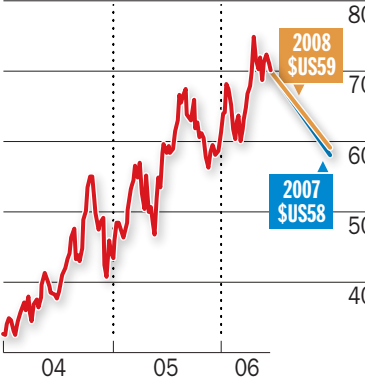
Short and long-term yields



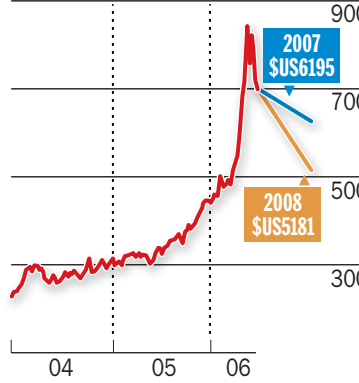
Bond yields, which have been unusually low because of stable inflation and an excess of global savings relative to investment, are yielding about the same as 90-day bills

Commodities

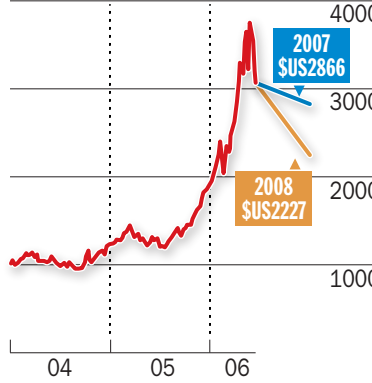
Crude oil



Copper

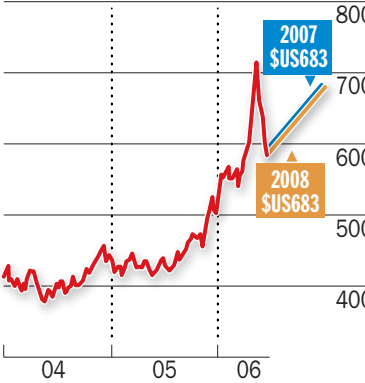


Zinc

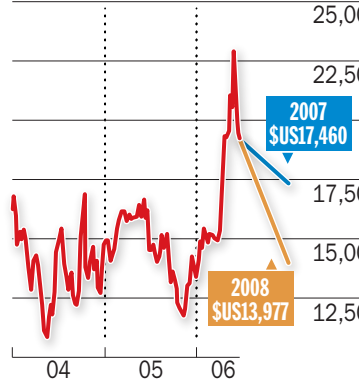


Resources have been booming since 2001 when China emerged with huge and growing demand in unison with strong global economic growth. The surge in demand highlighted a massive shortfall in supplies after a decade of underinvestment sending raw materials to record prices. The booming prices kindled investment interest in commodities, turning them into a new asset class and attracting major funds and speculative players. Global concerns about inflation and interest rates led to a sell-off over the past two months

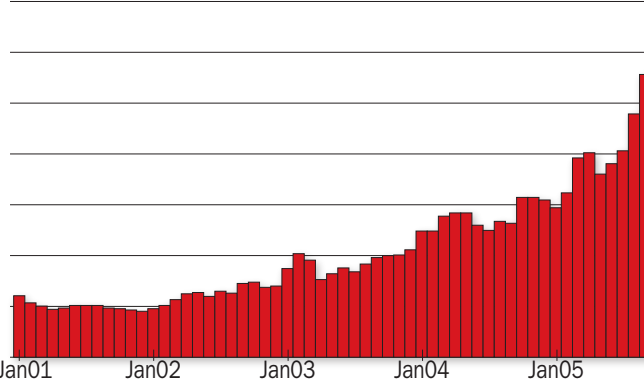
Spot gold



Nickel



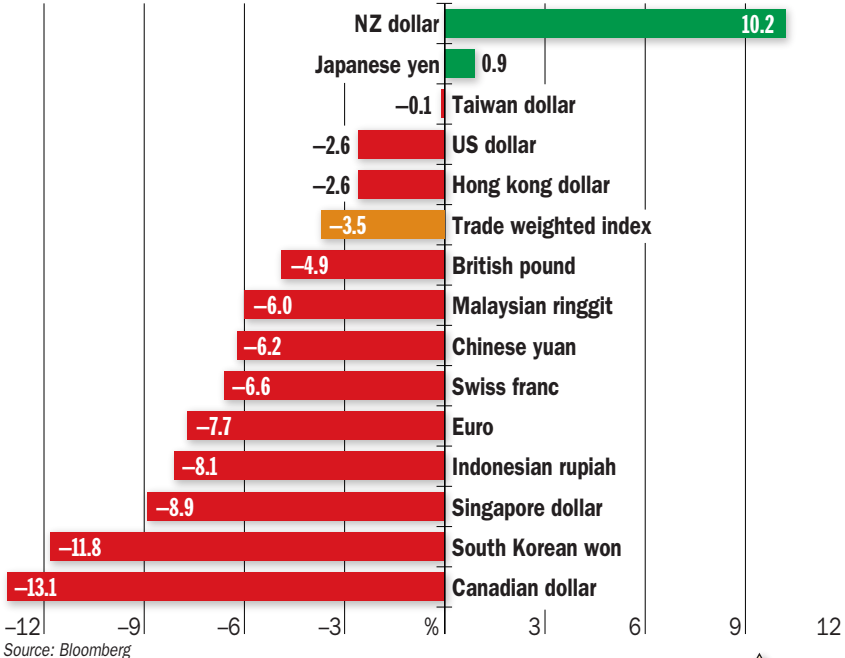
Monthly average speculative positions in key US commodities



Graphics: Les Hewitt

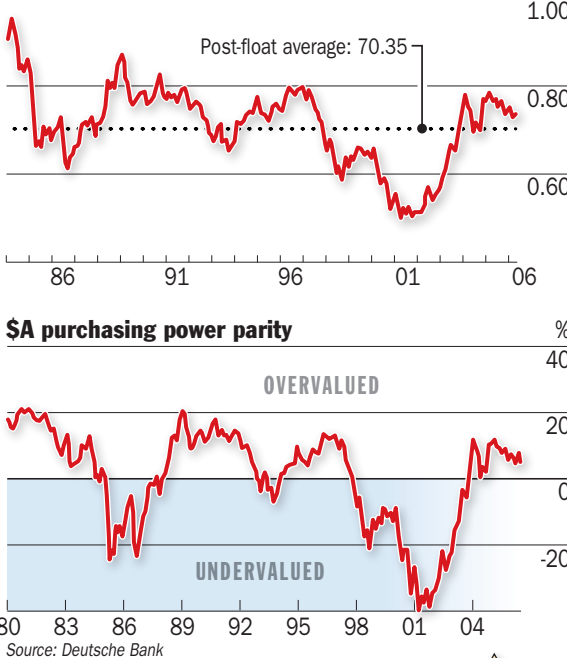
Australian dollar

Performance of \$A over past 12 months (%)



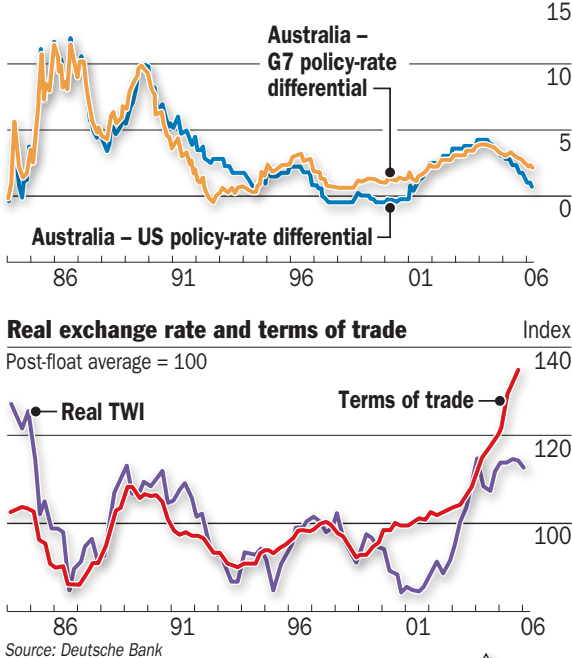
In a volatile year, the \$A fell in seven months, rose in four and was steady in one. The TWI was buffeted by higher US interest rates that offset gains flowing from rising commodity prices. It hit 18-month lows in March before recovering to end June 3.5 per cent lower than a year ago

SA/\$US exchange rate



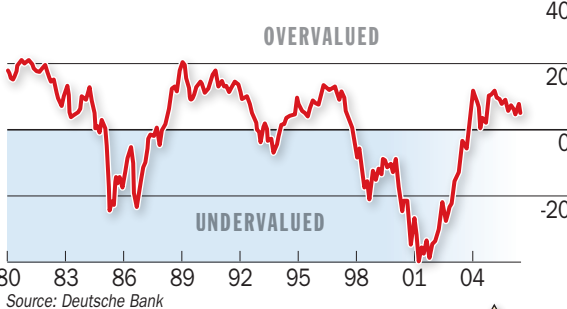
The \$A is above its post-float average of US70.35¢ and over fair value according to some estimates but below levels implied by the boom in commodity prices

Interest rate differentials



Australia's interest-rate premium over other major countries has shrunk in recent years, reducing the \$A's appeal and offsetting the attraction of high commodity prices

\$A purchasing power parity



Real exchange rate and terms of trade

