New York Securities Pty Ltd

Monthly Newsletter – October 2013

We distribute this issue earlier than usual due to a number of events that have occurred and events forthcoming that require immediate coverage prior to moving into the month of October.

TAPERING COMES TO A HALT

Bernanke dropped a bombshell. The experts got it wrong. It was expected the Fed would begin tapering its $85 Billion Bond Buying Program, but weak data leading up to the 18th September created an uncomfortable position for the Federal Reserve. As we said last month, the Fed had better get it right if they decide to slowly turn off the taps and they won't do so until it's clear the US economy is progressing from a solid base. It was, but then it wasn't, so they decided in the best interest of the US economy against tapering. The market had been preparing itself months in advance for the tapering to begin despite the Fed not officially specifying a date, although constant media reports made everyone believe that they had. Nonetheless the decision instantly shocked participants leading to rallies in stocks, bonds and gold. Unfortunately the next day all gains were given away as a result of the continuing challenge in determining when the Fed will finally begin its tapering.

The confusion likely emerged from recent comments by Ben Bernanke which reflected hesitancy amongst Fed members to make a decision "There is no fixed calendar schedule, I really must emphasise that. If the data confirms our basic outlook for growth and the labour market, then we could move later this year". What we do know is the inflation and unemployment figures (despite improving for the wrong reasons) aren't likely to be causing the Fed any immediate concern at this stage. Instead growth remains the crux of its hesitancy and the Fed finds itself cornered, at the mercy of bond market participants and the unknown outcomes of decisions made by US Congress in addressing the exploding US national debt.

Speaking of which, just around the corner is a recurring headache known as the US debt ceiling. Currently sitting at US$16.37 trillion it is likely to be broken (again) before the end of this year plays out, with some pundits saying as early as Mid-October. Whatever the date may be the problem is US National Debt to GDP now stands at 73% and is on an unsustainable path with government spending on interest payments alone projected to hit $1 trillion per annum by 2020 if it remains on its current path. Whilst the debt is being slowly addressed (recent tax hikes have slowed the rate of growth in the debt, but not reduced it), heavy spending cuts and further tax amendments are needed to reverse this trend. Considering government spending and tax are components of GDP, serious measures taken by US congress to reduce the debt will place inevitable pressure on GDP. As a consequence the Fed would remain cornered, not willing to depart from one of its influential mechanisms to control bond market participants until the debt is perceived to be under control. If there is any likelihood GDP is in jeopardy tapering will not be on the agenda for the Fed until 2014.

The debt ceiling will again be lifted to some trivial amount ending in trillion, with the outcome of the US senate debate providing guidance on when the Fed might move next.

THE AUSTRALIAN DOLLAR, INTEREST RATES AND BLOWING BUBBLES

Last month, the Australian Dollar was tipped to remain in the sub 0.90 cent level against the US dollar, if not fall further creating somewhat of a mini stimulus to sectors of our economy that are in great need of a boost to offset the headwinds faced in the mining sector. Naturally the new incumbent would have been gladly receptive of a fall to assist in balancing the economy. Unfortunately (but to the benefit of internet shoppers) the Fed's decision to halt tapering has kept our dollar high where it now sits at 0.9403 against the USD. Given the persistent high dollar the RBA is faced with the prospect of pursuing a more accommodating policy and so its members agreed this option would not be closed.

In a pre-emptive sign of the RBA setting itself on the course of a historically lower official cash rate in the near term, they along with APRA fired off a warning shot to the banks to ensure prudent lending standards are maintained. Frankly we consider this an astute and subtle "planting of innocence" by the RBA, to detach itself from future criticism that it had lost control of monetary policy and in particular emphasise that a housing bubble blow up, if it occurred at all, was the result of the lending policies of financial institutions and not due to bad handling of monetary policy. To the RBA's defence it's a difficult place they find themselves in at the moment, attempting to keep a lid on rising asset prices, in a low interest rate environment, battling a persistently high dollar, in an unbalanced economy, all the while making decisions without compromising growth. Perhaps the RBA is slowly taking notice from New Zealand's recent introduction of a 10/80 rule whereby only 10 percent of new mortgages underwritten can have a loan to valuation ratio (LVR) of more than 80 percent. This is a measure designed to clamp down on low deposit borrowers, whilst having limited effect on GDP. In contrast it is reported three quarters of mortgages offered in Australia allow an LVR ratio of 95 percent or less, requiring a 5 percent deposit or less. These are levels not seen since the GFC. Nonetheless, this is an issue where the RBA cannot afford to be reactive when it's very clear there is high probability this could lead to major problems in the future. We are likely to hear a lot of discussion about this in the media.

THE MONTH OF OCTOBER, WHAT LIES AHEAD

The month of October historically hasn't produced the best returns for investors. Coincidentally the stock market crashes of 1929, 1987 and 2008 all occurred in the month of October. Whilst we don't foresee a market crash this October we are faced with a number of issues that we believe will place pressure on cyclical stocks or in other words companies that are sensitive to the performance of the economy. The most prevalent question is if companies can continue to deliver renewed and/or continued improvement in profits in the face of a persistently high dollar and new challenges emerging in the market. Typically the nature of the market is to "shoot first, ask questions later", so we are not expecting October to be a strong month given the market is currently under a cloud of uncertainty. Best to keep a sharp eye on any companies you may have missed out on prior to the last run, October could be your opportunity to pick up some quality stocks at better prices as traditionally the market rebounds from late October through November onwards.

REVISTING CUDECO (ASX CODE: CDU)

Mid August we sent a note to clients raising a speculative buy on CuDeco (ASX Code: CDU). The price of the stock was approx $1.63 per share. Those who took our advice at the time have made good gains, but not without volatility to test the nerves. In the first instance, the share price retraced to $1.50 before advancing to it's a high of $2.40, settling at its current level of $2.10 per share. We have revisited the short term movement from a technical perspective and concluded if you're able to obtain a price of $2.20 or greater amongst the volatility short term, you should consider taking some profits off the table, but retain a holding for the longer term and hedge for further gains. Short term, the momentum is on the high end of the spectrum (red circle on chart below) and given the copper price is range trading we see limited upside in the immediate term.

From a long term perspective the share price is likely to find support at the $2.00 level (see chart below).

The price remains heavily under the 50-day moving average. There is a notable increase in volume of shares traded potentially reflecting the company supporters are overcoming the pressure created by the large four funds on the share price which we addressed last month. We now look for Cudeco's share price to consolidate at the $2.00 level before breaking the downtrend in momentum we have observed since July 2012. The company is certainly not shy of keeping its shareholders informed which in this market is a huge positive. It continues to release positive announcements on a number of activities, most recently:

- Drilling updates on the Rockland South continue to report intersections of semi-massive and massive sulphides. The new zone will be incorporated into an updated resource estimate which is currently underway. The last resource estimate was completed in May 2011.
- Pit optimisation study has commenced to investigate benefits from possible changes to pit shapes and subsequent mining schedules (incorporating a life of mine (LOM) of 30+ years)
- Re-Calculation of Net Present Value (NPV) underway (currently stands at AUD$1.4 billion dollars), based on associated update to resource, pit optimisation, mining scheduling.
- China Oceanwide International Investment Co files an application with the Foreign Investment Review Board to increase its shareholding to 19.9% from its current holding of 15%.
- Updates on the construction of the process plant (components are fully paid for), most recently installation of Ball Mill. The plant is expected to operate from mid-2014.
- Recent comments reflect the company is NOT considering raising capital at current prices (10th September, price $1.77). They consider the current price to be temporary and extremely undervalued.

As a consequence we still retain a positive outlook on the stock and consider it a "speculative buy" for a long term hold at a share price of $2.00 or below.

HOUSEKEEPING

Clients with Praemium Portfolio

Your Praemium account is automatically updated with each Buy and Sell transaction. Corporate actions and anything else needs to be manually entered. Whenever you take up Rights Entitlements, Share Purchase Plans, IPO's, Exercise Options or complete an Off Market Transfer please scan/email or fax through a copy of the paperwork to Jessica so you're Praemium account can be updated accordingly.

Expiry dates on Orders

We wish to remind clients when a Buy or Sell Order is placed for equities, unless an expiry date such as "Good for the Day" is specified the order will remain in the market for a period of 3 months. If you do wish to alter the expiry date of your order please let us know when the order is placed, otherwise it will remain on the market for 3 months. Equally if stocks are suspended from quotation, your order is removed from the market and will need to be re-instated on your instruction.

Settle Trades with Direct Debit/Credit Facility

Make your life easier and utilize the direct debit/credit facility we have available to settle your trades. Trades are settled direct to your nominated account on the day of settlement and are a lot easier than having to bank cheques or line up at the local bank to make a deposit. Save yourself some time and contact Jess at the office to organize.

Performance of Key Indices

Equities	Close	Change (M)	Change %(M)
All Ordinaries	5270.10	+144.8	+2.83%
S&P/ASX200	5275.90	+140.9	+2.74%
Dow Jones (US)	15273.26	+432.31	+2.91%
NASDAQ	3761.10	+140.8	+3.89%
S&P500	1692.77	+54.60	+3.33%
FTSE 100 Index	6551.53	+68.48	+1.06%
Nikkei 225 (Japan)	14620.53	+1160.8	+8.62%
10-year bond rate (US)	2.63%	-0.0013	-4.70%

Upcoming RBA Events

Reserve Bank Board Meeting – 1st October
Minutes of the RBA meeting – 15th October
Speech by Glenn Stevens at a British Chamber of Commerce Business Lunch – 18th October

ABS releases March

Retail Trade (August) – 1st October
Building Approvals (August) - 2nd October
Labour Force (September) – 10th October
Housing Finance (August) – 14th October
Lending Finance (August) – 15th October

Upcoming US Economic Releases

ISM Manufacturing Index – 1st October
US Employment Situation (September) – 4th October
International Trade – 8th October
Retail Sales – 11th October
Producer Price Index – 11th October
Consumer Price Index – 16th October
Housing Starts – 17th October
New Home Sales – 24th October
Durable Goods Orders– 25th October
GDP – 30th October
FOMC Meeting Announcement – 30th October
Jobless Claims – Weekly Basis