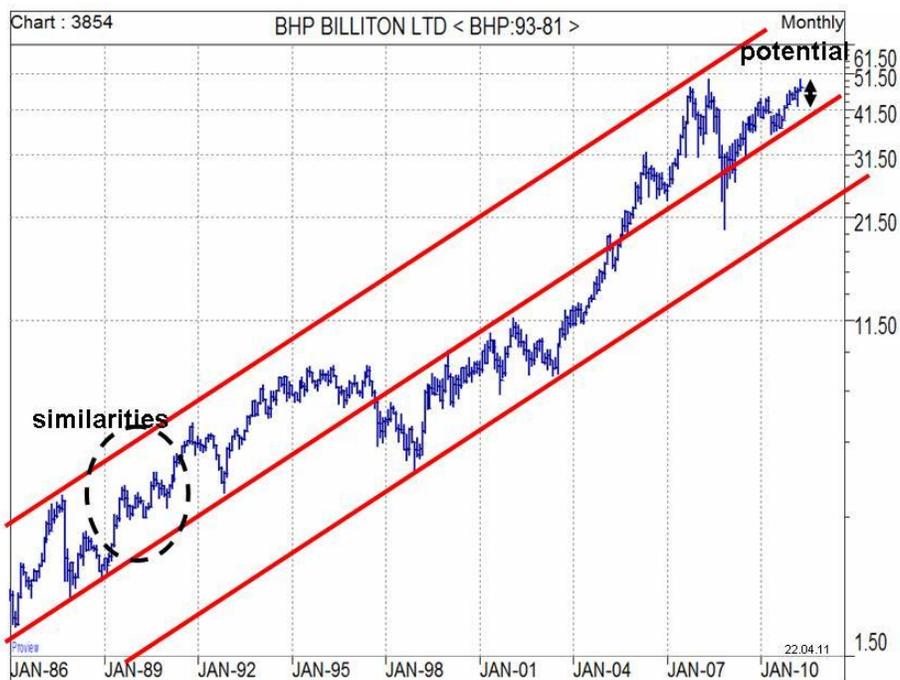


Recent global events have not left the Australian market unmarked, but the overall effects have been minimal. As we review BHP, RIO, Fortescue and Newcrest we find that there were already signs for a correction or pullback in their share prices ahead of the recent disasters but these events broadened volatility and accelerated sell-offs in some cases.

## **BHP**



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Earning itself the title of the “Big” Australian, as the world’s largest diversified resources group, BHP holds significant positions in major commodity businesses. These include aluminium, energy coal and metallurgical coal, copper, manganese, iron ore, uranium, nickel, silver and titanium minerals and the company also has interests in oil, gas, liquefied natural gas and diamonds. With over 40,000 employees in more than 100 operations, BHP stretches over 25 countries.

The share price has enjoyed a strong upward path from the mid 1970s and looking from the longer –term perspective we find that there are strong momentum similarities to both the early 1980s and from 1989 to 1990 when the price paused in its approach to resistance and pulled back to consolidate its position.

While there was a deeper pullback in the early 1980s we believe that the current action resembles more closely the late 80s when the price oscillated in a 20% range before continuing the upward path. The current pause action was instigated early last year when the price first tackled the peak zone resistance in the \$45-50 range.

As the phase has progressed it has seen the price churn between \$36 and \$48 with a strike towards the peak on April 11 when the price hit \$49.81. The short-term momentum peaked at this point and the price has reacted back within its previous range. More oscillations may develop as the price recovers its near-term momentum with a break away through \$51 signaling the next move higher towards \$53 and \$56 and potentially towards \$60 and possibly significantly beyond.

The risk would be a drop back beneath \$42 which may delay or threaten the return to the upward path.

## RIO



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Discovering, mining and processing the earth's mineral resources across the globe has established Rio as one of Australia's leading mining conglomerates. The company's major products include aluminium, copper, diamonds, energy products, gold, industrial minerals (borates, titanium dioxide, salt and talc), and iron ore. Mainly focused in Australia and North America, it has significant businesses in South America, Asia, Europe and southern Africa.

Like BHP, RIO has enjoyed a strong upward path from the 1970s albeit a far more volatile path which saw the price reach close to \$125 in mid 2008 only to collapse within the same year to \$23.59, wiping a whopping 80% from its share price.

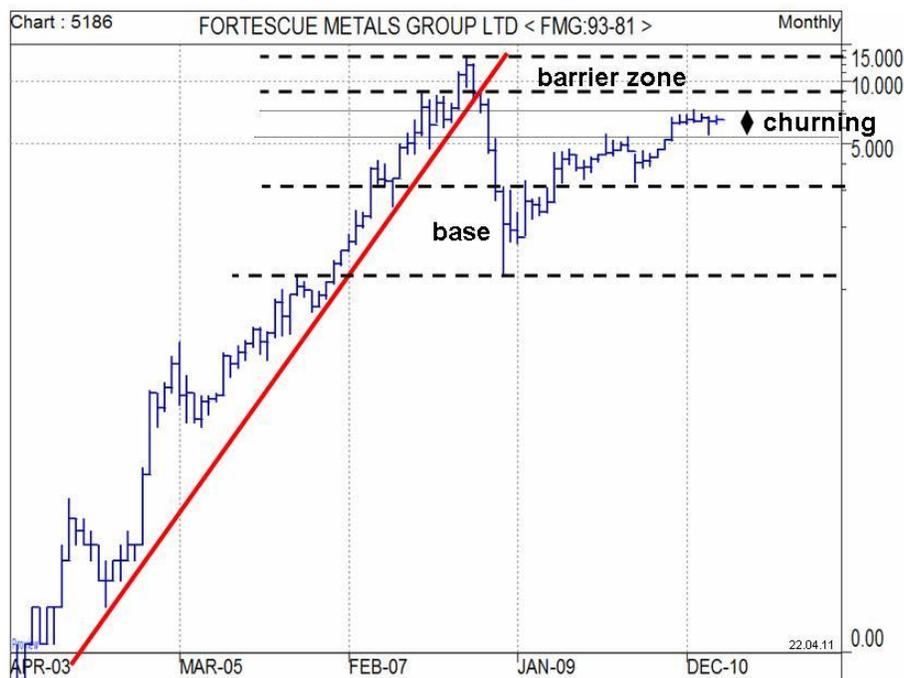
As the price spiked into reversal in December 2008 momentum swung into the positive and supported a rally and broadening of the phase which led to a stronger recovery and carried the price all the way back up to reach \$80 by January 2010. The steep rise sapped momentum and the price stalled in resistance, oscillating sideways before selling off to support around \$58 in May. Again spiking into recovery the price launched itself higher forcing its way through the \$80 barrier at the end of last year, but the tax on momentum was too high and the price stalled again around \$88 which continues to present a barrier.

While we expect this situation to continue over the short term we are encouraged by the longer-term positive forces at play. The entire action from early 2006 until September 2010 formed a large diamond pattern, which while a reflection of uncertainty during their development, once finalised they have powerful longer-term implications.

The upward break through \$75 last September has made an initial upward break from the pattern. As the price wrestles with its next barrier around \$88 there is likely to be more churning in the \$76-90 range ahead of the price tackling the final barrier for the pattern around \$95. Once clear the next major advance for the stock would be triggered towards the peak and beyond.

The danger to this scenario would be a drop below \$75 signaling a deeper set back within the long-term upward trend.

## Fortescue



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The company's byline is "the new force in iron ore" and it has become one of the world's largest producers and sea-borne traders of iron ore. Focused in the Pilbara region of Western Australia, its iron ore is an established product for more than 30 international steel mills. Its major projects are at Christmas Creek and Cloud Break.

In its first full year of operations, the company boasted that it mined, railed and shipped more than 27 million tonnes of iron ore to China.

Starting out at 1c in 2003 the price spiraled upwards to achieve a high at \$13.15 in June 2008. As momentum stretched the price exhausted its upward run and formed a top during 2008 breaking down in September to simultaneously reverse the upward trend. Suffering a rapid decline to locate support at \$1.16 a few months later the price rebounded quickly to form a base.

Breaking higher in June 2009 the price commenced a new upward path but encountered resistance from the former top around \$5.50 early in 2010 which halted the advance. Pushing sideways the price lacked the momentum to force a break higher and slumped back towards base support around \$3.25 in mid last year. Boosted into recovery the price forged higher and took out the previous barrier around \$5.50 to extend its run towards its \$6.75-7.00 objective.

Early in November the price reached \$6.90 and experienced an extreme shift in momentum and the price reacted sideways churning in a band between \$6.20 and \$7.00 until the price spiked down on March 10, the day before the quake, tipping to a double turning point at \$5.50 on March 15 and 17. From here the price has returned to its previous sideways action between \$5.70 and \$7.00 as it attempts to recover the momentum for another mover higher but the action is threatened by uncertainty and a drop below \$5.50 could produce a more severe setback.

Over the near term, a rise above \$7.00 would be considered favourable for an advance towards \$7.70-\$8.00 and potentially higher.

## Newcrest



In terms of capitalisation, production and reserves, Newcrest is rated one of the world's top ten gold mining companies and is Australia's largest producer. It has six operating mines: Cadia Hill and Ridgeway in Orange, NSW; Telfer Open Pit and Telfer Underground in the Pilbara Region, Western Australia; Cracow in the Gladstone Region of Central Queensland and Kencana in Indonesia. The company is also exploring for gold and gold-copper deposits in Australia, Indonesia, Fiji, the United States, Canada and Peru.

The share price for Newcrest is underpinned by strong upward momentum with the recent drop towards \$35 in March, a return to the support trend.

If we follow the price history we find that from a low at \$1.13 in 1997 the share price advanced along a strong upward path. In reaching \$40.50 in March 2008, momentum reached extremes and a significant correction to the upward path ensued with the price falling back to \$16.55 by the following October. The price rebounded and in the later stages of 2009 settled into an oscillation range between \$30 and \$40.

Breaking free of this range in September 2010 and clearing the previous peak the upward path carried the stock higher into its initial target range between \$43 and \$46. But the move sapped momentum and the price halted at \$43.71 in November and a minor top formed. Breaking down early in January, the price dropped to test the \$35-36 area support producing a one-day reversal at \$35.15 on March 17 initiating more volatility in the \$35 – 40 range. Jumping higher at the beginning of April, the push appears to have lifted the volatility range which may now see the price swing between \$37 and \$42 as it rebuilds its shorter-term momentum. When the next step higher occurs the stock would head into the \$50-60 range but with a significantly higher potential.

A drop below \$37 may see the price slip back to the more critical support around \$35.



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