


Base Metal: Promising Prospect



Microscope

While the prices for the year ahead for base metals depends on the state of the global economy, where recovery or otherwise is so uncertain, it seems to conclude a pessimistic prospect for base metals. Commodity prices were, in fact, hit hard in the fourth quarter last year. Oil had it the worst, falling 51%. Copper was also down 49%, nickel fell 43%, aluminum dipped 34% and zinc dropped 33%. Over in Japan - the fourth-largest consumer of copper - smelters are continuing to work at dramatically reduced levels. Production has been cut approximately 10% this year due to decreased demand from the automotive industry. Since that industry isn't showing any sign of recovery (unless you're making \$2,000 shoeboxes), Japanese copper smelters may announce further cuts as the fiscal year begins April 1. On the other hand, the US jobless rate climbed in March to the highest level since 1983 and manufacturing shrank, putting

the recession on the brink of becoming the longest in seven decades. Manufacturing probably contracted in March for the 15th time in the last 16 months, the Tempe, Arizona-based Institute for Supply Management may report on April 1. However, base metal prices rallied in early March, primarily on the back of positive news emerging from the major infrastructure development programs around the world, which include rebuilding bridges, upgrading transportation systems, as well as public buildings and schools, could provide a much-needed lift. Obama has enacted a series of measures aimed at stemming the recession since taking office Jan. 20. He signed into law a \$787 billion stimulus plan on Feb. 17 that included spending on infrastructure projects. China's program that calls for US\$538-billion in expenditures over two years

will ramp up quickly starting in February. As a result, China's demand growth for metals is forecast to be over 5% in 2009. China's demand growth, coupled with the drop in mine supply, should keep metal inventories down in the short term, and when the US and other countries begin infrastructure development, metal prices will increase again. In addition, the market has reacted to increasing purchases by China across a number of metals, generally positive trade data in recent months, confidence that the Chinese economic stimulus will prove to be successful in boosting base metals demand and specific shortages, such as the tightness in the copper scrap market. The key questions are whether the increased purchasing proved to be temporary and when it is sufficient to offset weak conditions elsewhere in the world. 

Prices of commodities plunged last year, forcing BHP Billiton Ltd., the world's biggest miner, and Rio Tinto Group, the third-largest, to cut output and curb mining operations. Xstrata Plc also announced cuts in nickel, zinc and coal production in Canada, Australia and the Dominican Republic. It is in no doubt that commodity cutbacks have been substantial. What you are about to see is a rapid rebuild in demand particularly in places like China when economies recover. China consumes about 30% of the world's output of copper and aluminum. As we go through the summer months things will look incrementally better. Moreover, China does have an \$85 billion plan to fix its electrical infrastructure, a plan which is sure to require lots of copper wiring. The recovering US housing sector also needs more copper pipes and wires. Hard to imagine in this market, but in the latest statistics on construction (released March 18), the new housing starts in February rose 22% from January. Although it may be too early to say the imminent bull-run, the current supply constraint will certainly sow the seeds of the next metals cycle, when demand first stops falling. 

MARKET BRIEFING


YTD % (local curr)

US DJ	7,776 (-11.4%)
Nasdaq	1,545 (-2.0%)
Euro Stoxx 50	2,118 (-13.6%)
HSI	14,119 (-1.9%)
Japan NK225	8,626 (-2.6%)
China Shanghai Composite	2,374 (30.4%)
Singapore	1,745 (-0.9%)
India BSE30	10,048 (4.2%)
Brazil BOVESPA	41,907 (11.6%)
Aus All Ord	3,615 (-1.2%)
US-10yr Bond	Yield 2.76%


As at 27/03/09

Insight: "Benefits of Asset Allocation"

Asset allocation is referred to how an investor distributes his or her investments among various classes of investment vehicles. A large part of financial planning is finding an asset allocation that is appropriate for a given person in terms of their appetite for risk taking. Inherent in asset allocation is the idea that the best-performing asset varies from year to year and is not easily predictable. Picking the best performing asset, although psychically appealing, is considered by proponents of asset allocation to be a fool's errand. They say that someone who jumps from the one asset to the next, according to whim,

may easily end up with worse results than any consistent plan because of mis-timing. Such a person can be quite successful at transferring value away from himself. Asset allocation is justified by the notion that different asset classes offer returns that aren't perfectly correlated, hence diversification reduces the overall risk in terms of the variability of returns for a given level of expected return. Therefore having a mixture of asset classes or asset diversification is more likely to meet your goals. Be aware, however, that a mutual fund investment doesn't necessarily provide instant diversification, especially if the fund focuses on only one particular industry sector. If you invest in narrowly focused mutual funds, you may need to invest in more than one mutual fund to get the diversification you seek. 

A-Z Financial Tools

Off balance sheet (OBS) usually means an asset or debt or financing activity not on the company's balance sheet. It could involve a loan commitment or a contingent liability such as a letter of credit. It also involves futures, forwards and other derivatives. Investors should thoroughly analyze the transaction of a company, which may involve financing so as to get a complete view on the prospect and risk. 



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