



Morning Note

15 January 2009

Wall Street falls on retail sales slump

US stocks slid the most in six weeks overnight after a government report showed retail sales decreased at more than twice the rate forecast by economists last month. General Electric, Macy's and American Express tumbled more than 5% after the Commerce Department said purchases fell 2.7% in December. Citigroup lost 23%. The Dow sank 248 points, or 2.9%.

In the UK the FTSE lost 219 points, or 5.0%. Banks were thumped after Morgan Stanley said HSBC may have to raise as much as \$30b in capital and halve its dividend. The miners fared little better after LME base metals had another night to forget. Lead, nickel, tin and zinc all dropped at least 3.5%. The big Aussie miners BHP and RIO fell 8.5% and 11.2%.

The local market is set to disappoint today with local share index futures down 104 points.

Panoramic (PAN) a high leverage nickel play

PAN has achieved a 13% increase in the Deacon Mineral Resource at Kambalda to 71.8kt contained nickel. The new resource has added 12 months mine life (8.5kt contained nickel) and 13c to Argonaut's valuation (now \$1.79 v market price \$1.00).

To survive the current period of low and volatile nickel prices, management is focussed on lowering costs and hitting the FY09 production target of 20kt contained nickel (17-18kt on an equity basis). Attractive features of the business include:

- Market cap of \$189m, cash estimate of \$50m, no bank debt
- No large capital expenditure items
- Mine life building to >10 years
- In the money hedge book

At current distressed base metals prices PAN (and peers) have a tough job battling thin margins. However PAN's expanding production profile makes the stock highly leveraged to the eventual recovery / stabilisation of nickel prices.

Galaxy (GXY) energises Mt Cattlin lithium

Following a positive DFS GXY announced a \$0.65m capital raising and plans to proceed with the Mt Cattlin lithium project near Ravensthorpe.

The study suggests a \$68m 1Mtpa mine could generate \$26m p.a. pre-tax cash from Q3 2010. Risks include the thin and opaque lithium market, and project financing.

Lithium demand is driven by its use in batteries for electric cars, mobile phones and computers. Although Mt Cattlin is hard rock, brine mines are more common.

GXY has a ~\$20m market cap, ~\$1m cash (pre placement) and no debt. The MD is Iggy Tan, an executive with rare lithium operations experience.

Project economics (Source: GXY)

	0.73 AUD/USD FX Rate
Capital Costs	A\$ 68 million
Revenue pa *	A\$ 69 million
Net Cash (pre tax) pa *	A\$ 26 million
Net Present Value NPV (non-g geared, real @8%)	A\$ 128 million
Internal rate of Return IRR%	26%
Mine Life	15 Years
Cash Cost **A	A\$41 /t ore

* Life of Mine Average
 ^ Excludes Royalties and Sustaining Capital

World Markets		+ / -	%
Dow Jones	8,200	-248	-2.9
NASDAQ	1,490	-57	-3.7
S & P 500	843	-29	-3.3
FTSE 100	4,181	-219	-5.0
Nikkei 225	8,438	25	0.3
ASX All Ords	3,624	30	0.8

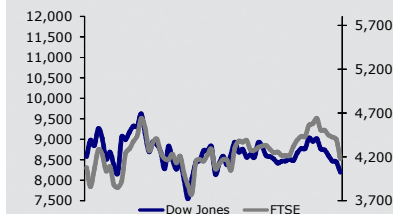
Currencies		+ / -	%
\$A/\$US	0.660	-0.004	-0.6
\$US/Yen	89.040	-0.340	-0.4
GBP/\$A	2.212	0.030	1.4
Euro/\$US	1.318	-0.000	-0.0

Energy		+ / -	%
WTI Spot (US\$/bbl)	37.43	-0.34	-0.9
Henry Hub (US\$/mcf)	5.47	-0.24	-4.1
UxX Uranium (US\$/lb)	51.00	-2.00	-3.8

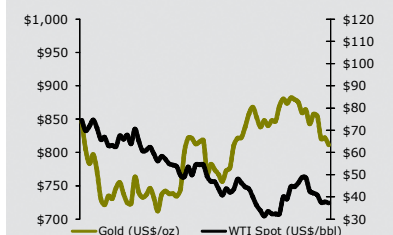
Precious Metals (Bloomberg)		+ / -	%
Gold (US\$/oz)	811.6	-10.5	-1.3
Platinum (US\$/oz)	935.5	-8.0	-0.8
Silver (US\$/oz)	10.6	-0.2	-1.7

LME, Cash		+ / -	%
Aluminium (US\$/t)	1,459	-19.8	-1.3
Copper (US\$/t)	3,252	-82.3	-2.5
Lead (US\$/t)	1,123	-48.0	-4.1
Nickel (US\$/t)	10,765	-422.0	-3.8
Tin (US\$/t)	11,280	-410	-3.5
Zinc (US\$/t)	1,237	-46.3	-3.6

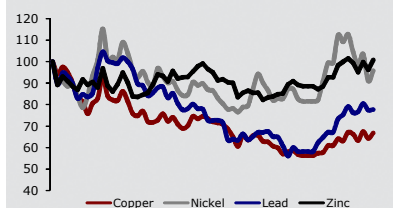
International Markets (3 Month)



Gold v Oil (3 Month)



Base Metals (Rebased) (3 Month)



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