



## **Global Securities Market Bulletin**

November 11, 2011

Issue No.129

**Courtesy: Global Securities Research**

Tel: (604) 689-5400 Website: [www.globalsec.com](http://www.globalsec.com)

Fax: (604) 647-2160 E-mail: [analysts@globalsec.com](mailto:analysts@globalsec.com)

---

### **COMMENTARY – Geopolitical risk rising on Iran nuclear report**

*Potential wildcard risk for 2012*

**Elvis Picardo, CFA**

A scathing indictment of Iran's nuclear program by the International Atomic Energy Agency (IAEA) this week has led to an increase in geopolitical risk. While this risk has taken a backseat to the plethora of other risk factors such as sovereign debt and economic growth concerns that have preoccupied investors in recent years, this week's developments could lead to geopolitical risk being a wildcard in 2012, in our opinion.

On November 8, the IAEA reported that Iran had carried out work on the development of an indigenous nuclear weapon, including component testing. The IAEA said that Iran had attempted to create a miniaturized nuclear weapon design based on Pakistani blueprints, by using front companies and overseas experts. While the agency said that such evidence points to the "possible military dimensions" of Iran's nuclear program, it did not say that Iran has the capability and materials to produce a nuclear bomb, nor did it offer an opinion on a possible timeline for Iran to produce such a device.

Predictably, Iranian President Mahmoud Ahmadinejad dismissed the report and said that the nation would not withdraw an "iota" from its atomic program. Stepping up the rhetoric, Iran's supreme leader Ayatollah Khamenei said today that the nation would respond with full force to any aggression or threats.

To be sure, concerns about Iran's nuclear ambitions are nothing new. Recall that US President George W. Bush had included Iran – along with Iraq and North Korea – in his "Axis of Evil," a term that he had elaborated on in the course of his State of the Union address in January 2002.

In a strategy report back in May 2006, we had highlighted Iran as one of five risk factors at the time that could impact equity markets. That report was issued after Iran had declared at the beginning of 2006 that it would resume nuclear fuel research after a voluntary two-year hiatus. In response, the US and Europe had demanded that Iran cease its uranium enrichment and research program, as it could lead to developing nuclear weapons. President Bush had said at the time that while efforts were on to resolve the matter diplomatically, all options were on the table with regard to Iran's nuclear program. These remarks had led to speculation of a pre-emptive strike by the US and/or Israel against Iran's nuclear facilities.

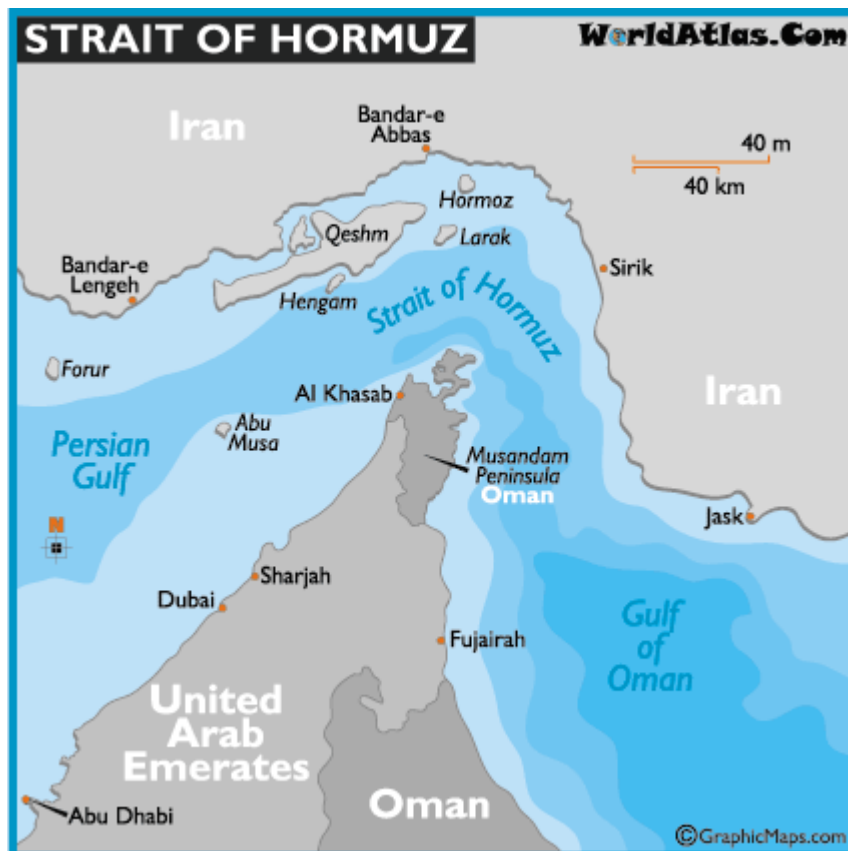
Thankfully, that scenario did not come to pass. But with 5½ years having elapsed since then, the risks with regard to Iran's nuclear ambitions seem to have increased, not diminished.

An editorial column in Bloomberg yesterday called for stepping up economic sanctions against Iran, rather than considering the "terrifying option" of a strike by the US or Israel on Iran's suspected nuclear or weapons sites. The column noted that four rounds of sanctions since 2006 have already hit Iran hard, with inflation expected to hit 22.5% this year and economic growth barely at 1% annually.

**Bottom-Line:** Investors seem to be paying scant attention to the Iran issue at present, focused as they are on more pressing concerns. But we would argue that this issue – a wildcard though it may be – deserves some consideration as we position investment portfolios for 2012.

The most obvious impact of a potentially worsening Iran situation would be on crude oil prices, which are already approaching \$100 per barrel as concerns about slowing economic growth get alleviated. In recent years, Iran has periodically threatened to close the Strait of Hormuz, a chokepoint (see Figure) that if blockaded, could send oil prices skyrocketing. The Strait of Hormuz connects the Persian Gulf with the Gulf of Oman and the Arabian Sea; in 2009, it transported 15.5 million barrels of oil daily, which was one-third of all seaborne oil and 18.5% of world oil production of 84 million bbl/d.

Should the situation deteriorate markedly in the weeks ahead, crude oil – and to some extent, gold – may be the obvious beneficiaries. However, price spikes in oil and gold may not translate into concomitant increases in energy and gold equities, as the addition of yet another risk factor could dampen enthusiasm for equities across the board.



**(Trade Update) Aecon Group – Reiterate Hold, target raised to \$11.00 from \$10.50**

We are raising our price target on construction and infrastructure development company Aecon Group (TSX: ARE, \$10.28) to \$11.00, from \$10.50. Our Hold rating is unchanged.

At its intra-day high of \$10.48 today, Aecon had surged 58% from its three-year low of \$6.62 reached on October 4. The stock has gained 12.5% since our previous stock update on October 28, clearing stiff resistance at \$10 with ease. This week's gains were triggered by a strong Q3 earnings report. Aecon reported a 67% increase in adjusted profit attributable to shareholders of \$40.5 million, with revenues up 4% to \$835 million. The company also reaffirmed its positive outlook through this year and next. **(A full analysis of Aecon's earnings will be published in next week's Bulletin).**

The stock's recent surge has been accompanied by significantly higher volume, and while this is another bullish sign, we would counsel investors to wait for a pullback before adding to positions.

**Market Snapshot at 11:45 AM**

| <b>S&amp;P TSX</b> | <b>12276.88</b> | <b>+168.01</b> | <b>Commodities</b> |         |        | <b>Yields (%)</b> | <b>Can.</b> | <b>US</b> |
|--------------------|-----------------|----------------|--------------------|---------|--------|-------------------|-------------|-----------|
| <b>TSX Venture</b> | 1642.67         | +18.11         | Canadian \$        | 98.80   | +0.46  | 90 Day T-Bill     | 0.74        | 0.00      |
| <b>DJIA</b>        | 12165.45        | +271.66        | Gold (Spot)-US\$   | 1787.15 | +28.75 | 2-Year Bond       | 0.91        | 0.23      |
| <b>S&amp;P 500</b> | 1264.84         | +25.15         | Oil (WTI-Dec.)     | 98.99   | +1.21  | 10-Yr. Bond       | 2.12        | 2.06      |
| <b>NASDAQ</b>      | 2681.04         | +55.89         | CRB Index          | 320.29  | +1.37  | 30-Yr. Bond       | 2.75        | 3.13      |

**Thought for the Day**

“The more we sweat in peace the less we bleed in war.” – Vijaya Lakshmi Pandit

This publication is not, nor is it to be construed as, a solicitation or recommendation to investors to purchase, sell or hold any of the securities referred to herein. Investors should consult their own broker(s) to determine the suitability of any securities referred to herein as these securities and the trading strategies incorporated into any trading recommendations will not be suitable to all investors. Further information concerning this publication, including information respecting Global's research dissemination procedures, recommendation rating system, recommendation follow-up matters, suspension or discontinuance of coverage and related matters may be found at the research page on Global's website, the address for which is [www.globalsec.com](http://www.globalsec.com), under the caption "Research". Unless noted otherwise, none of the material operations of the issuers referred to herein have been viewed by the report writer(s). The contents hereof may not be reproduced in whole or in part without the prior written consent of Global Securities Corporation ("Global") Copyright 2011; All rights reserved.