

NEXT Daily – Tuesday 30th March 2010

Overseas

The **Dow Jones** rose 45 pts or 0.42% to 10,895.86 (YTD 4.49%), **S&P 500** rose 6 pts or 0.57% to 1,173.22 (YTD 5.21%) and the **NASDAQ** rose 9 pts or 0.39% to 2,404.36 (YTD 5.96%)

The **FTSE** rose 7 pts or 0.13% to 5,710.66 (YTD 5.50%), **Nikkei** fell 9 pts or 0.09% to 10,986.47 (YTD 4.17%) and the **Hang Seng** rose 184 pts or 0.88% to 21,237.43 (YTD -2.90%)

Oil rose \$2.17 to \$82.17 a barrel.

Gold rose \$3.10 to \$1,110.60 an ounce.

Base metals were stronger with Copper up 3.38% to \$350.72, Nickel rose 1.66% to \$1,086.81, Zinc was up 4.65% to \$104.30 and Aluminium rose 2.80% to \$102.10.

BHP ADR's trading at \$44.04 vs the Aussie close of \$43.38.

SPI 200 Futures closed up 16 pts at 4,939.

Ideas

US Equities started the week on a positive note following a series of economic reports that pointed to a continued economic recovery, while investors grew increasingly optimistic ahead of Friday's employment report. Stocks and commodities advanced world-wide, amid better-than-anticipated demand for a Greek offering of 7-year securities, while US consumer spending increased for the fifth month. Reflecting the improving positive tone in the market Goldman Sachs JBWere (GSJBW) cited Birinyi Associates Inc., the research and money-management firm founded by Laszlo Birinyi as raising its year-end forecast for the S&P 500 to 1,325. A level that would mark a 14% rally from last week's close. "Given our trading background and approaches, we are impressed with the resilience of the market which, in effect, is what trading desks mean when they say the market 'acts well,'" according to the report Birinyi sent to clients "Large stocks are now likely to be contributors rather than detractors." Further GSJBW said the S&P 500 is trading at the lowest valuation compared with junk bonds in two years, a sign the stock-market rally will continue, if two decades of history are any guide.

Gold continues to gain posting a third positive day in New York as a weaker dollar increased demand. GSJBW said gold imports by India, the world's biggest consumer, jumped this month as jewellers stockpiled the metal to meet wedding-season demand. Purchases until March 25 were between 28 tons and 30 tons, up from 4.8 tons a year earlier, said Suresh Hundia, president of the Bombay Bullion Association. Demand may stay strong, fueled by as many as one million marriages planned for April and May, he said, supporting a 21% gain in global prices in the past year. Gold is bought during marriages as part of bridal trousseau or gifted in the form of jewellery by relatives. The wedding season in India runs from November to December and from late March through early May. Elsewhere, Gold consumption in China may double within the next 10 years, boosting prices as supplies fail to keep pace with booming demand from investors and the jewellery industry, the World Gold Council said. "China has an insatiable appetite for gold, which looks likely to continue in an environment where domestic mine supply lags behind demand," the council said in a report today. China's economy grew 10.7% in the fourth quarter from a year earlier, the fastest pace in two years, after a 4 trillion yuan (US\$586 billion) stimulus package spurred record lending and consumption. The world's biggest gold producer has increased reserves by 76% to 1,054 metric tons since 2003 and has the fifth-biggest holdings by country, Hu Xiaolian, deputy governor of the People's Bank of China, said in April.

Finally GSJBW reported that Japan's Nikkei has reported that Vale has approved a "tentative quarterly iron ore price deal" with Asian steel mills that will raise the price of Brazilian iron ore by 90% to US\$105/tonne for a three month period commencing 1 April 2010. The Nikkei agency added that "Price negotiations will continue because the two sides are not in full agreement....they hope to resolve their differences by the end of next month, with the agreed-on price to be applied retroactively to April 1". Separately, BHP Billiton has announced an agreement with a significant number of customers throughout Asia, to move existing iron ore contracts that were previously priced annually to "shorter term landed price equivalent basis".

GSJBW commented that clearly the indicated Vale terms are still not a "done deal". However, they offer the following observations:

- We now look to be very close to agreements based on quarterly pricing and, from the wording of the BHP announcement, it appears that these will be based on a landed price (i.e. CIF as opposed to FOB).
- Last year's price for Vale's Southern System Sinter Feed (iron ore fines) was set at US\$55.53/tonne FOB, and a 90% increase would raise the price to \$105.51/t (as noted above).
- If we were to apply the same 90% increase to the FOB Australia iron ore price it would give a price of US\$114.27/tonne, which is broadly in line with our expectations for the spot market price in 2Q2010 on an FOB net-back basis but higher than our expectations for a quarterly contract price of c.US\$100/tonne.
(Note that the difference between the Brazilian and Australian prices is attributable to freight differential and grade differences.)

Research

OneSteel Limited (\$3.87) – With higher iron ore spot prices, UBS have **downgraded** to a HOLD with a price target of \$4.15.

Nufarm Limited (\$8.68) – With the formal release of their 1H10 results and their recent share price performance, GSJB Were have retained a HOLD, Credit Suisse and Macquarie maintain a SELL whilst JP Morgan and Deutsche have both **downgraded** to a SELL. GSJB Were has a price target of \$9.95.

PanAust Limited (\$0.52) – Following the announcement of their board approval for the development of its Ban Houayxai gold-silver project in Laos, Citigroup, Credit Suisse and GSJB Were have all retained a BUY. GSJB Were has a price target of \$0.78.

iiNet Limited (\$2.70) – Following the acquisition of ISP Netspace for A\$40mn, JP Morgan, Macquarie and RBS have all retained a BUY. RBS has a price target of \$3.14.

Ansell Limited (\$12.16) – With the recent sharp rally in latex prices, GSJB Were has **downgraded** to a HOLD with a price target of \$13.50.

National Australia Bank Limited (\$27.70) – Following the recent share price weakness. Citigroup has **upgraded** to a BUY with a price target of \$30.50.

Regards,

Zac Leman