**NEXT Daily – Wednesday 7th April 2010**

**Overseas**
The **Dow Jones** fell 3 pts or 0.03% to 10,969.99 (YTD 5.20%), **S&P 500** rose 2 pts or 0.17% to 1,189.44 (YTD 6.67%) and the **NASDAQ** rose 7 pts or 0.30% to 2,436.81 (YTD 7.39%)
The **FTSE** rose 35 pts or 0.62% to 5,780.35 (YTD 6.79%), **Nikkei** fell 57 pts or 0.50% to 11,282.32 (YTD 6.98%) and the **Hang Seng** rose 297 pts or 1.40% to 21,537.00 (YTD -1.53%)
Oil rose $0.21 to $86.83 a barrel.
Gold rose $2.85 to $1,134.75 an ounce.
Base metals were mixed with Copper up 1.34% to $361.07, Nickel fell 0.85% to $1,124.86, Zinc was up 1.79% to $109.55 and Aluminium rose 0.49% to $105.87.
BHP ADR's trading at $44.32 vs the Aussie close of $44.63.
SPI 200 Futures closed up 8 pts at 4,983.

**Ideas**
It looks like investor confidence in US recovery is slowly building with US Mutual Funds showing further inflows into Equity Funds. The Latest AMG report shows continued outflows from money market funds and inflows to equities. MMF (Money Market Funds) posted their 12th consecutive week of outflows. As a result, money market assets are now down to $2.697 trillion – their lowest since October 2007. On the flip side, equity funds are seeing their 6th consecutive week of inflows, pushing equity fund assets to a new high of US$1.728 trillion – the highest level since Oct 2008. It is also worth noting that Municipal bond funds reported their first weekly outflows since 12/30/2008.

The RBA lifted the cash rate by 25bps yesterday, its 5th hike in six meetings, taking the cash rate to 4.25%, up from 3% at the start of October. The rise was in line with last week's shift in consensus from hold to raise. UBS Research makes the following comments:

> The RBA's willingness to lift the cash rate today, despite the last month's run of softer economic data (i.e. flat jobs growth, only modest credit growth, weak retail, residential & finance approvals), will be seen by many as reflecting the recent heat in house prices. However, it more likely reflects concern that their growth forecasts are too low (at 3¼% through 2010, versus UBS's 4¼%), that strong commodity prices, investment activity and population growth have lifted the economy's future potential growth rate – and thus the 'neutral' cash rate. So while 4½% delivers 'average' historical lending rates, the RBA's move today may reflect their concern that the 'new' neutral is further away.
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> Again, the RBA's willingness to hike today, despite the recent softer data, suggests it remains focused on its positive medium term outlook, and given upside risks to this, to move as quickly as possible to re-establish – at the very least – more historically normal borrowing rates (at about a 4½% cash rate). As such, and with the likelihood that the next batch of monthly data will look better, we now expect a further +25bp in May. A much lower than expected Q1 CPI print (or unexpectedly poor data) may challenge this.
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> At 4½%, the RBA's rhetoric suggests it may be more willing to take some time to reflect on the data flow and risks around its central case outlook. We continue to expect, beyond May, that future moves will be more spread out (in part reflecting our expectation that the 150bp of hikes over 7 months will dent consumer and housing sentiment in the period ahead), and maintain our forecasts for a further 25bp in both Q3 & Q4. We retain our mid 2011 cash rate target of 5.5% (though we flag modest upside risks to this), and now expect the RBA to reach 5% end 2010 (was 4.75%).

MacArthur Coal (MCC) announced yesterday that it has received a revised 'indicative, non-binding and conditional proposal' from Peabody Energy (Peabody) under which Peabody is offering to acquire all shares in MCC for A$14/share by way of a scheme of arrangement. This was increased from $13/share proposed on 30 March 2010. Credit Suisse Research makes the following recommendation:

> We think it's tough for the MCC board to recommend the Noble/GCL transaction over Peabody's $14/share takeover bid on valuation grounds. To do so would contradict the

findings of the Independent Expert (IE) report valuations commissioned by MCC to support the GCL/Noble transactions.

Peabody's $14/share bid is 12% higher than Macarthur's own IE's $12.49/share 'high case' valuation. Peabody's $14/share bid exceeds the price criteria previously defined by the MCC Board in the IE report on 3 March 2010 (IE valuation range $9.84/share to $12.49/share for MCC). These same valuations have been used as a basis to support the alternative Noble/GCL transaction. So, in our view, this can/must be used to evaluate Peabody's offer.

MCC is more likely to reject Peabody's bid because of "onerous conditions", or to open a data room and run a formal auction process for the company. We re-iterate our view that Noble is unlikely to make a full takeover bid for MCC and that Peabody can get the deal done at $14-15/share, with upside to $16/share if a third party makes a counter bid.

**Research**
Infigen Energy ($1.27) – Following the successful sell of its French assets, RBS and Deutsche have retained their BUY whilst GSJB Were and Credit Suisse maintain a HOLD. Deutsche has a price target of $1.65.
Goodman Group ($0.66) – With a strong likelihood of securing new external capital, UBS has **upgraded** to a HOLD with a price target of $0.70.
Ardent Leisure Group ($1.35) – Following sustained share price weakness in recent months, RBS has **upgraded** to a BUY with a price target of $1.68.

Regards,

**Zac Leman**