NEXT Daily- Wednesday 14th April 2010

Overseas
The **Dow Jones** rose 13 pts or 0.12% to 11,019.42 (YTD 5.67%), **S&P 500** rose 0.82 pts or 0.07% to 1,197.30 (YTD 7.37%) and the **NASDAQ** rose 8 pts or 0.33% to 2,465.99 (YTD 8.67%)
The **FTSE** fell 15 pts or 0.28% to 5,761.66 (YTD 6.44%), **Nikkei** rose 90 pts or 0.81% to 11,161.23 (YTD 5.83%) and the **Hang Seng** fell 34 pts or 0.16% to 22,103.53 (YTD 1.06%)
Oil fell $0.30 to $84.04 a barrel.
Gold fell $4.60 to $1,151.60 an ounce.
Base metals were mixed with Copper down 0.07% to $356.85, Nickel fell 1.08% to $1,154.10, Zinc was down 1.45% to $106.79 and Aluminium rose 0.81% to $109.01.
BHP ADR's trading at $43.86 vs the Aussie close of $43.84.
SPI 200 Futures closed up 21 pts at 4,985.

Ideas
China recorded a US$7.24 billion trade deficit in March, the first time imports have outweighed exports since April 2004. Morgan Stanley believes this trade deficit will prove temporary, but note the key takeaway in the context of commodity markets is strong domestic demand for industrial raw materials. Morgan Stanley adds the following observations:

> Imports of copper returned to last year's record levels. The combined total of refined metal, alloy, anode and fabricated products imports was 456Kt, a total second only to last June's all-time record (+22% yoy, +42% mom). While the elevated levels are likely in part due to a lagged effect from shipments booked in January and February, when the SHFE/LME arbitrage was favourable toward imports, we find the trend supportive.
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> Given the outcome in this month's iron ore price negotiations, the third-highest ever month import total (59Mt, +13% yoy, +20% mom) should not come as a surprise, even as spot prices continued to rise in March. Exports of steel products and aluminium showed significant improvement (+34% mom and 50% mom, respectively), which is a good sign of the economic health in the destination countries, although imports of both also showed marked improvement (+43% mom and 48% mom, respectively).
> **We conclude that these figures are clearly demonstrating there is not only real physical demand, but a resilient growth trend in domestic consumption. We also note that these trade figures occurred in conjunction with a marked decline in new loan growth, which should ease market concerns over easy money contributing to metal stockpiling**.

JP Morgan (JPM) have reviewed their commodity prices forecast with the main upgrades from Nickel, Aluminium, Copper and Iron Ore. JPM have increased iron ore price forecasts by 33% for CY10E and 13% for CY11E (year average, CFR basis). **The base metal upgrades are really due to restocking of raw materials in the Western world. China's macro indicators are however expected to slow from a high base in 2H10, as policy tightening seeks to head off rising inflationary pressures.** JPM expecting this is more likely to affect China's appetite to carry excess inventory than underlying consumption, which will remain strong. China is on track to account for ~50% of growth in metals consumption in 2010. The JPM commodity team expects copper to average $8,000 in the 2Q period, with aluminium expected to average $2,400. Nickel's rally (although already impressive), is expected to extend further with prices expected to average over $25,000 in 2Q. Zinc should average near $2,500, but Lead is set to be the relative underperformer given adverse inventory adjustments. In the medium term, the JPM commodity analysts are cautious about metal prices in late 2H11 on the back of reduced global liquidity as economic growth improves.

With Bank reporting season for the September year end approaching, Credit Suisse believe ANZ has the best chance of delivering 1H10E upside earnings surprise. Credit Suisse highlight two factors:

> Firstly, we believe that ANZ has greater scope for bad debts normalisation than its peers (ie, WBC BDDs have already normalised from 73bp to 34bp 2H09/1Q10, whereas ANZ's were only 57bp for the first four months of 1H10). We also expect the cycling high impairments in February/March 2009 that contributed to a higher bad charge in 1H09 to be unrepeated.
> Secondly, we expect financial markets income to hold up better than originally expected, following continued volatility and further platform increases. For context, in FY09 markets income grew to $2.2bn, up from the $1.2bn in FY08. We expect markets income to be tracking abound the $2.0bn level on an annualised basis versus initial expectations of a fall to c$1.5bn annualised.
> ANZ trades on 12.6x 12-month prospective earnings (equating to a 1% discount to the major bank average vs. 4% four-year average discount) and a corresponding book multiple of 2.0x.

Research
Fortescue Metals Group Limited ($5.21) – With higher iron ore prices not yet reflected in FMG's share price, UBS has **upgraded** to a BUY with a price target of $6.00.
Alumina Limited ($1.77) – Following an improvement in AWC's division's margins with costs flat and prices up, Deutsche, Macquarie and UBS have retained a BUY whilst GSJB Were has maintained their HOLD and RBS have **downgraded** to a HOLD. UBS has a price target of $2.40.
Energy Resources of Australia Limited ($18.52) – Following the production results weaker than previously estimated, RBS have retained a BUY whilst Deutsche has maintained a HOLD. UBS has **downgraded** to a HOLD, whilst Credit Suisse has **downgraded** to a SELL and JP Morgan, Macquarie and GSJB Were reiterate their SELL. RBS has a price target of $22.58.
Hills Industries Limited ($2.82) – Following their recent move to 100% ownership of Fielders for a consideration of A$10m, RBS has **downgraded** to a HOLD with a price target of $2.64.
Silex Systems Limited ($6.40) – Following the confirmation of the successful completion of the initial measurement program of the Test Loop project, RBS has **downgraded** to a HOLD with a price target of $7.07.
PaperlinX Limited ($0.75) – With the announcement that they will close their Burnie Mills operation in Tasmania, JP Morgan and Deutsche have retained a BUY whilst Credit Suisse maintains a HOLD. Deutsche has a price target of $1.00.
MacMahon Holdings ($0.82) – Following their attainment of a $90m civil contract with Queensland Rail, Macquarie has **downgraded** to a HOLD with a price target of $0.83.

Regards,

Zac Leman