

## NEXT Daily – Friday 7<sup>th</sup> May 2010

### Overseas

The **Dow Jones** fell 347 pts or 3.20% to 10,520.32 (YTD 1.01%), **S&P 500** fell 37 pts or 3.24% to 1,128.15 (YTD 1.31%) and the **NASDAQ** fell 82 pts or 3.44% to 2,319.64 (YTD 2.43%)

The **FTSE** fell 80 pts or 1.52% to 5,260.99 (YTD -2.83%), **Nikkei** fell 361 pts or 3.27% to 10,695.69 (YTD 1.57%) and the **Hang Seng** fell 194 pts or 0.96% to 20,133.41 (YTD -8.02%)

Oil fell \$2.65 to \$76.91 a barrel.

Gold rose 1.90% to \$1,197.30 an ounce.

Base metals were weaker with Copper down 0.10% to \$314.00, Zinc fell 0.50% to \$94.00 whilst Aluminium was down 0.80% to \$94.00 and Nickel rose 0.60% to \$997.00.

BHP ADR's trading at \$36.49 vs the Aussie close of \$37.60.

SPI 200 Futures closed down 173 pts at 4,400.

### Ideas

The hammering on the Dow last night saw the bourse plunge 700 points in 15 minutes only to then reclaim 600 points over the next 20 minutes. A "fat finger trade" was blamed for the trade however, this was amplified by high frequency trading. 3M, the second largest weighted stock in the Dow was trading at \$83.92. It then fell as low as \$67.98 in less than ten minutes, with a mere 4k shares trading below \$70.00. Similarly, P&G fell from ~\$60 to sub-\$40 in a heartbeat. Accenture fell from ~\$40.00 to print a trade at \$0.01. The NYSE came out and denied any system error and claimed that these left field prints were made outside of its exchange. Bank stocks slid in Europe as sovereign-debt fears tightened their grip, with some banking names slumping more than 7%, while the euro was again battered. The market was disappointed that the ECB didn't actually announce anything. Trichet reiterated that his primary responsibility is price stability, not solving the deficit and solvency problems of European sovereigns which didn't give the market much comfort. Italy also came out and cut its growth projections and raised its deficit outlook – this prompted speculation that the agencies would downgrade the country although all three, S&P, Moody's, and Fitch, came out and reiterated their outlooks on Italy.

The Dow Jones Newswires are reporting that The New York Stock Exchange and Nasdaq OMX Group are in discussions with the Securities and Exchange Commission to examine whether any trades in Procter & Gamble Co. (PG) and a number of other stocks that traded erratically Thursday afternoon should be cancelled. They went on to say:

Shares of Procter & Gamble had tumbled as much as \$22.79, or 37%, at one point after sharp declines in the stock market sent the stock below a key circuit-breaker level. Once a stock falls below its circuit breaker, or what the New York Stock Exchange calls "liquidity replenishment points," or LRPs, the price quotes are no longer just electronic and they go into "slow" mode, under which they are no longer protected under Regulation NMS. Reg NMS requires traders to transact on a trading venue at the lowest price rather than on a venue offering the quickest execution or the most reliability. In turn, when P&G's stock fell below its circuit breaker, other market centers can trade through the quotes. While the designated market maker at the NYSE traded at the \$56 level, a trade came through from the Nasdaq exchange at \$39.37, according to the NYSE. The trade went through because once a stock is below its circuit-breaker level, "we're looking to trade all the liquidity at the right price," an NYSE official said. "That's our human element that everyone in the world

always questions," said Steven Grasso, director of institutional sales at Stuart Frankel & Co. on the NYSE floor. "As soon as we hit the LRPs, Reg NMS is bypassed, so we're going to slow to try to make sure we get the right price. It's then that we have true price discovery." Grasso said once traders saw that someone wanted to trade P&G as low as \$39.37, "then it just set on itself. When we go slow and the other markets trade through them, it all feeds on itself. To me it was a massive sell signal through the whole equity markets and it exacerbated at a certain point, and then it really get out of the control." P&G wasn't the only stock that fell below its circuit-breaker level in Thursday's tumble, the NYSE official said. 3M Co. (MMM) was another, as was Accenture (ACN). Both P&G and 3M are components of the Dow Jones Industrial Average. In turn, their plunges prompted the Dow's levels to fall sharply; when traders saw the Dow at those levels, it exacerbated the decline as it fueled further fears.

Domestically the National Australia Bank Limited has released its **1H10 result which beat consensus as sliding revenue was offset by a big fall in the bad debt charge. However, revenue adjusted for FX, trading income and oneoffs looked better and credit stress close to peaking according the RBS. They went on to make the following comments.**

**Result beats consensus despite tough conditions** NAB's 1H10 cash EPS of A\$1.025/share beat consensus by 0.5% (IBES), but the interim dividend of A\$0.74/share fell 2% short. Revenue growth across the sector was curbed by the recent loan growth skew away from business to housing, fee cuts in the retail bank and normalising trading income, but NAB fared the worst. We have downgraded our cash EPS forecasts for FY10, FY11 and FY12 by 2.8%, 6.3% and 6.0% respectively.

**Revenue weakness has bottomed, in our view** Group cash revenue adjusted for acquisitions and FX fell 0.2% on the pcp, compared to rises of 4.0% for WBC and 9.7% for ANZ. Most of the gap with WBC reflected a larger fall in volatile trading income for NAB. Despite the 1H10 weakness, we see strength returning for other revenue drivers. NAB's mortgages market share is rebounding and the worst looks to be over for loan growth in its vital business banking unit. We expect stable margins for NAB in 2H10 and FY11 given the emerging mix shift to business loans and lower term-debt needs than peers. The trading income and retail fee drags should run off by 1H11.

**Asset quality looks good relative to peers** However, revenue growth will only return slowly and NAB will need further falls in its bad debt charge to drive earnings growth. NAB looks well placed on this front as its asset quality looks to be in line with CBA and WBC on some metrics. In 1H10, NAB's impaired assets to loans ratio rose less than its peers' and new impaired assets dived 29%.

## Research

Brambles Limited (\$7.13) – Following the release of their 3Q10 trading update, Credit Suisse and UBS have retained a BUY whilst Deutsche, GSJB Were, Macquarie and RBS have maintained a HOLD. GSJB Were has a price target of \$8.50.

Australian Infrastructure Fund (\$1.92) – With AIX announcing they will acquire an additional 2.21% stake in APAC, Deutsche, Macquarie, JP Morgan and GSJB Were have maintained a BUY whilst RBS and UBS have retained a HOLD. JP Morgan has a price target of \$2.40.

Suncorp-Metway Limited (\$8.53) – Following the release of their quarterly APS 330 disclosure detailing asset quality trends, Deutsche, Credit Suisse, UBS, RBS and JP Morgan

have retained a BUY whilst GSJB Were maintain a HOLD. Deutsche has a price target of \$11.00.

Sims Metal Management Limited (\$20.88) – With their March 2010 EPS in line with expectations, GSJB Were and RBS have maintained a BUY, UBS has **upgraded** to a BUY whilst Deutsche and JP Morgan retained a HOLD and Credit Suisse has reiterated their SELL. GSJB Were has a price target of \$28.36.

Adelaide Brighton Limited (\$2.81) – Following the increase of their CY10 earnings expectations, JP Morgan, Deutsche, Credit Suisse and UBS have retained a BUY whilst GSJB Were has maintained a HOLD. Credit Suisse has a price target of \$3.30.

AMP Limited (\$6.05) – With AMP releasing their 1Q10 flows and an end-of-quarter FUM update, Credit Suisse has maintained a BUY, RBS and GSJB Were have retained a HOLD whilst JP Morgan reiterates a SELL. GSJB Were has a price target of \$7.40.

Spotless Group Limited (\$2.60) – Following their recent share price weakness, Deutsche and Credit Suisse have retained a BUY whilst GSJB Were has **upgraded** to a BUY with a price target of \$3.51.

Clough Limited (\$0.85) – With CLO acquiring a 31.24% interest in construction company FGE, RBS has **downgraded** to a HOLD with a price target of \$0.90.

Leighton Holdings Limited (\$34.05) – Following their recent share price underperformance, JP Morgan has **upgraded** to a BUY with a price target of \$38.46.

Centennial Coal Company Limited (\$4.52) – With Banpu's acquisition of a 14.9% stake in CEY, JP Morgan has retained a BUY whilst Macquarie has **downgraded** to a SELL. JP Morgan has a price target of \$5.22.

Spark Infrastructure Group (\$1.18) – Following the Australian Energy Regulator releasing its final decision for ETSA Utilities (49% owned by SKI for a 5 year period), Macquarie and UBS have retained a BUY whilst GSJB Were and JP Morgan have maintained a HOLD. Macquarie has a price target of \$1.80.