

NEXT Daily – 10th May 2010

Overseas

The **Dow Jones** fell 139 pts or 1.33% to 10,380.43 (YTD -0.46%), **S&P 500** fell 17 pts or 1.53% to 1,110.88 (YTD -0.38%) and the **NASDAQ** fell 54 pts or 2.33% to 2,265.64 (YTD -0.16%)

The **FTSE** fell 137 pts or 2.62% to 5,123.02 (YTD -5.36%), **Nikkei** fell 331 pts or 3.10% to 10,364.59 (YTD -1.72%) and the **Hang Seng** fell 213 pts or 1.06% to 19,920.29 (YTD -8.93%)

Oil fell \$2.00 to \$75.11 a barrel.

Gold fell \$0.17 to \$1,208.40 an ounce.

Base metals were mixed with Copper down 0.01% to \$313.49, Zinc fell 0.92% to \$93.53 whilst Aluminium was down 1.48% to \$92.58 and Nickel rose 2.27% to \$1,019.90.

BHP ADR's trading at \$37.15 vs the Aussie close of \$37.50.

SPI 200 Futures closed down 49 pts at 4,425.

Ideas

Continued concern over Europe overshadowed positive US jobs data. For the first time in 2 months, the Dow ended the day down for the year. It is off 5.7% for the week, the S&P500 is off 6.3% and the Nasdaq -8%. On Friday, the Dow fell 140pts or 1.3% to 10380, the S&P500 -17pts to 1.5% to 1111 and Nasdaq -54pts to 2.3% to 2266. The US jobs data was not enough to cheer up the market. April non-farm payrolls increased 290k (Mkt est: +190k), the largest gain since March 2006, lifted by strong additions in the private sector. Adding to the positive report was news that the March figure, originally reported as an increase of 162k, was upwardly revised to 230k. However, the unemployment rate also rose to 9.9% in April from 9.7% in March as discouraged workers reentered the work force. American International Group Inc. (+5.3%) swung to a Q1 profit as the rescued company recorded fewer investment write-downs and insurance results showed signs of improvement.

Bloomberg reported this morning that European Union finance ministers moved toward agreement on an unprecedented loan package worth at least US\$645 billion to prevent Greece's fiscal woes from triggering a broader sovereign-debt crisis and shattering confidence in the euro. Jolted into action by last week's slide in the currency to a 14-month low and soaring bond yields in Portugal and Spain, the 16 euro governments sketched out plans to make 440 billion euros (US\$570 billion) available, with 60 billion euros more from the EU's budget, according to three officials at the talks in Brussels said Bloomberg. An additional, unspecified sum may come from the International Monetary Fund, the officials said. "We are going to defend the euro," Spanish Economy Minister Elena Salgado told reporters as she arrived to chair the meeting yesterday. "We think we have a duty for more stability for our currency. We will do whatever is necessary." Europe's failure to contain Greece's fiscal crisis triggered a 4.1 percent drop in the euro last week, the biggest weekly decline since the aftermath of Lehman Brothers Holdings Inc.'s collapse. It prompted the U.S. and Asia to urge broader steps to prevent a debt crisis from pitching the world back into a recession. President Barack Obama spoke by phone with German Chancellor Angela Merkel for the second time in three days, adding to the international pressure Europe has faced since a hurriedly arranged conference call of Group of Seven finance chiefs on May 7. Obama yesterday emphasized "the importance of the members of the European Union taking resolute steps to build confidence in the markets," White House spokesman Bill Burton told reporters in Hampton, Virginia. Bloomberg said expectations of decisive action buoyed the euro as trading began in Asia. It jumped 1.5 percent to \$1.2939 as of 7:59 a.m. in Sydney. EU officials aimed to wrap up the meeting by 2 a.m. Brussels time. With the euro

facing the stiffest test since its debut in 1999, the weekend turned into a crisis-management exercise to restore faith in the currency and prevent a European debt crisis from cascading around the world. The purpose is to “decide on a mechanism that enables us to assure the stability of the euro, stability in the zone and, beyond that, stability in financial markets,” French Finance Minister Christine Lagarde said. “When it comes to supporting the euro, that is for the eurogroup countries,” Darling told Sky News. “We need to show again today that by acting together we can stabilize the situation.”

The Reserve Bank has upgraded its economic outlook given recent strong data and the sudden return of the resources boom, even as it factored in higher interest rates.

It now expects growth to reach an above average 3³/₄-4%, while the low in inflation has been bumped up to 2³/₄%, with inflation eventually reaching the top of the 2-3% target band. Royal Bank of Scotland (RBS) highlighted that the market has ignored this upgrade, focussing instead on the dramatic global sell-off that was triggered by the worsening of the European debt crisis. RBS said:

The Bank finalised its outlook yesterday, before the bad news overnight, but highlighted the debt crisis as a downside risk to the outlook (it goes without saying that the upside risk to the outlook was the resources boom). Although Europe is a tiny export market for Australia, such that the direct trade link is insignificant, the crisis could affect us via a variety of indirect channels. For example, weaker European demand would affect Asia, which is our biggest trading partner, while lower confidence/lower asset prices/increased illiquidity/etc could spill over to Australia. At this stage, however, we are assuming that European policy-makers, including the ECB, eventually calm the market. In the short term, this means the Reserve Bank will pause and we do not expect hikes to resume until August, after the release of the Q2 CPI. The market is taking a different bet and is pricing in a 13% chance of a *cut* at the June Board meeting. As things stand, we think this is mispriced as the situation would have to get much worse with a clear spillover to Australia before the Bank thought about unwinding its recent rate hikes. Longer term, with unemployment low and inflation not falling as far as the Bank had expected, we see price pressures building next year on the back of the resources boom. We doubt that the Bank wants to see inflation get away from it again, which is why we see tight monetary policy next year.

Research

IRESS Market Technology Limited (\$8.34) – Following the company update, Deutsche has retained a BUY, UBS has **upgraded** to a BUY whilst GSJB Were maintained a HOLD and Credit Suisse has reiterated their SELL. GSJB Were has a price target of \$9.48.

Wotif.com Holdings Limited (\$6.23) – Following their recent share price weakness, UBS has **upgraded** to a BUY with a price target of \$7.30.

Commonwealth Bank of Australia (\$53.00) – With CBA’s recent share price underperformance, Credit Suisse has **upgraded** to a BUY with a price target of \$62.50.