

## NEXT Daily – 14<sup>th</sup> May 2010

### Overseas

The **Dow Jones** fell 113 pts or 1.05% to 10,782.95 (YTD 3.40%), **S&P 500** fell 14 pts or 1.21% to 1,157.44 (YTD 3.80%) and the **NASDAQ** fell 30 pts or 1.26% to 2,394.36 (YTD 5.52%)

The **FTSE** rose 50 pts or 0.93% to 5,433.73 (YTD 0.39%), **Nikkei** rose 226 pts or 2.18% to 10,620.55 (YTD 0.70%) and the **Hang Seng** rose 209 pts or 1.04% to 20,422.46 (YTD - 6.63%)

Oil fell \$1.25 to \$74.40 a barrel.

Gold fell \$5.70 to \$1,233.22 an ounce.

Base metals were stronger with Copper up 1.97% to \$323.29, Zinc rose 2.92% to \$96.58 whilst Aluminium was up 2.65% to \$97.34 and Nickel rose 0.99% to \$1,029.70.

BHP ADR's trading at \$38.34 vs the Aussie close of \$38.82.

SPI 200 Futures closed down 53 pts at 4,618.

### Ideas

Stocks spent most of the session mired in negative territory with a modest loss after they failed to push past a key technical hurdle, but losses quickly steepened as sellers redoubled their efforts in the final hour of trade. The tone for most of the session was relatively tepid as buyers took a breather after they had sent the stock market up more than 5% higher during the course of the three previous sessions. That streak of gains put the S&P 500 face-to-face with its 50-day moving average, but a lack of positive catalysts made it difficult for the stock market to challenge the technical line with any sort of conviction. The only economic data for the day was a lacklustre weekly jobless claims report, which featured 444,000 initial claims and 4.63 million continuing claims. The initial claims tally was in-line with expectations and the continuing claims count was a bit higher than expected, but both remain at heightened levels.

**Royal Bank of Scotland (RBS) have lifted valuations across the coal sector based on significant short and long term coal price upgrades. In the absence of another coal price step-up, and amid RSPT uncertainty, RBS believe only WHC and NHC offer value at current levels. RBS said:**

We have significantly upgraded our short and long term coal price based on the likelihood that current prices will cycle for longer than we had first expected and a view that cost escalation will continue in the Australian and Chinese coal sectors. We now assume long term prices of US\$125/t and US\$75/t for hard coking and export thermal coal respectively, with earnings partly offset by higher cost assumptions. We believe that there is close to no chance that the resource super profits tax (RSPT) will be passed into legislation in its current form. However we believe the market will continue to discount resource equities until details are confirmed and/or as the politics play out. We show that the RSPT in its current form impacts coal equity NPV's by 5-10% and now present "RSPT valuations" alongside our base case valuations. Not an ideal investing environment, with RSPT uncertainty contributing to our cautious sector approach in the short term. From 3QC09 we were buyers of the coal sector as an option over tightening coal markets. Coal pricing has now rebounded to levels well above our original expectations. We are confident these levels can be sustained and also think that greater clarity provided by quarterly pricing will help the market support coal stocks into 1H11 where previously it may have discounted them over uncertainty on next year's contract prices. However, we

believe another large step-up in coal pricing is unlikely from here and are also cautious around recent exuberance re corporate activity and mixed Chinese economic data.

**Opposition leader Tony Abbott in his response to the Rudd governments budget has nominated the government's proposed tax on mining profits as "the issue on which the election now turns" as he promised to chop 12,000 public service jobs and slash spending to return the budget to surplus as quickly as Labor.** Goldman Sachs JBWere (GSJBW) said that in his biggest pre-election pitch yet, the Opposition Leader used his budget address-in-reply speech to vow the Coalition would return to surplus using spending cuts, not new taxes. He promised to reduce the overall size of the government by 1 per cent of gross domestic product, which would equate to more than \$60 billion in spending cuts over the next four years. "It's my goal to return the budget to surplus at least as quickly as the government proposes but not the lazy way through a great big new tax that threatens miners' jobs, retirees' incomes and everybody's standard of living." Attacking the budget, which forecast a surplus by 2012-13, as being too dependent on the resurgent mining boom, Mr Abbott said there was a high road and a low road to achieving a surplus. "The high road is expenditure restraint and economic reform. The low road is increasing taxes and making assumptions about economic growth." GSJBW said the speech was designed to shore up Mr Abbott's economic credibility and was devoid of any new vote-buying handouts. Mr. Abbott said the shadow treasurer, Joe Hockey, would outline more spending cuts on Wednesday. Mr Abbott said last night the Coalition would place a two-year freeze on federal public sector hiring. About 6000 public servants retire or resign each year, and the Coalition would let the sector atrophy by 12,000 jobs, saving \$4 billion over four years before lifting the freeze. He also promised to cut government advertising by 25 per cent and use the \$652 million in the budget saved from shelving the emissions trading scheme to fund his own climate change "direct action" policies. He reserved his venom for the resource super profits tax, which will raise at least \$9 billion a year from 2013-14. The government does not plan to legislate for the tax until after the election. Mr Abbott said if he won, the proposal would be dumped, along with the measures the tax would fund, including a 2 per cent cut to company tax and depreciation allowances for small businesses. "It would be robbing Peter to pay Paul and playing the kind of class war envy that Mr Rudd's Labor predecessors have mostly been too honourable to exploit," he said. "In the end, it's a judgment about who can be trusted with the fate of the country that decides elections. This budget rests on the government's new mining tax and the election should turn on this too." The government argues the return to surplus does not depend on the mining tax because the measures it will fund will be scrapped if the Senate refuses to pass the tax. Mr Abbott attacked the recent 25 per cent increase to tobacco taxes, which will raise an extra \$5.5 billion over four year, but the Coalition will support it and keep the revenue if elected. He said he would save unspent money from the school buildings scheme by bypassing the states and giving the funds straight to the schools. Mr Abbott hinted that if elected, he would dump the government's GP super clinics and also the electronic health initiative announced in the budget. The Finance Minister, Lindsay Tanner said "this is the most negative, flaky, risky budget reply ever", and that Mr Abbott was a "great big risk to the economy".

In breaking news, Healthscope (HSP) said this morning that it has received a takeover offer from a private equity consortium for all its issued capital at A5.50 a share, valuing the company at A\$1.74 billion. Healthscope recommended shareholders take no action in regard to the proposal.

## Research

GWA International Limited (\$3.18) – Following the recent decline in GWT's share price, UBS has **upgraded** to a HOLD with a price target of \$3.30.

Goodman Fielder Limited (\$1.44) – With a strategy briefing day giving further insight into GFF's core capabilities, JP Morgan and GSJB Were have retained a HOLD whilst Deutsche has **downgraded** to a HOLD. GSJB Were has a price target of \$1.73.

Spark Infrastructure Group (\$1.19) – Following recent share price weakness, Credit Suisse has **upgraded** to a BUY with a price target of \$1.47