

NEXT Daily – 19th May 2010

Overseas

The **Dow Jones** fell 114 pts or 1.08% to 10,510.95 (YTD 0.79%), **S&P 500** fell 16 pts or 1.42% to 1,120.80 (YTD 0.51%) and the **NASDAQ** fell 36 pts or 1.57% to 2,317.26 (YTD 2.12%)

The **FTSE** rose 44 pts or 0.85% to 5,307.34 (YTD -1.95%), **Nikkei** rose 6 pts or 0.07% to 10,242.64 (YTD -2.88%) and the **Hang Seng** rose 229 pts or 1.17% to 19,944.94 (YTD -8.81%)

Oil fell \$0.67 to \$69.41 a barrel.

Gold fell \$1.75 to \$1,220.70 an ounce.

Base metals were stronger with Copper up 3.52% to \$302.17, Zinc rose 2.11% to \$86.55 whilst Aluminium was up 3.02% to \$91.82 and Nickel rose 7.04% to \$1,001.53.

BHP ADR's trading at \$37.05 vs the Aussie close of \$37.24.

SPI 200 Futures closed down 50 pts at 4,442.

Ideas

U.S. stocks retreated and the euro fell to a new 4-year low against the dollar as Germany's move to initiate a short selling ban on its major financial institutions - including CDS and bonds. Europe's long-term recovery prospects hung over the U.S. market throughout the session however sellers took control in both the currency and equity markets as the German news hit the tape early in the afternoon. The euro collapsed the best part of two full cents to US\$1.2162, the U.S. Dollar Index jumped 1.1% to a high of 87.36 - weighing on risky dollar-denominated investments, and investors rushed into safe-haven Treasuries. U.S. home construction posted a bigger-than-expected gain in April thanks to the extension of a tax credit, but a plunge in permits suggests the housing sector will remain a weak spot in the economy said JPM. U.S. wholesale prices edged lower in April, indicating the Federal Reserve need not worry about inflation, and giving it leeway to keep interest rates at a record low to help bolster the recovery.

Yesterday the latest RBA board meeting minutes were released indicating that the RBA is likely to pause for the moment stating that "monetary policy well placed for the present". Deutsche Bank summarised the key messages from the minutes below:

In May "the uncertainty in the euro area" was the basis of the "case ... for a pause in the process of normalising interest rates", a case that ultimately failed in favour of "some further monetary tightening". We suspect, however, that with "interest rates faced by most borrowers" now "around their average levels", the RBA Board is likely to "pause" in June to better assess the extent it will be required to restrain domestic focussed demand to 'make room' for the "expansionary effects of boosts to the terms of trade". As a result, in our view the RBA's message remains the same. The monetary stance (taking into account expanded lending margins) is back to "average" ("normal", "neutral", etc.) and while there is evidence that the "timely" policy adjustments to date have left "monetary policy well placed", it is only thus "for the present". The caveat is applied because the RBA continues to see its 'main game' as calibrating the monetary stance to sufficiently suppress domestic focussed demand to make room for the anticipated "stimulatory effects of the resources boom" against a backdrop of the "forecast for inflation" having "been revised up, and over the next couple of years it was unlikely that inflation would not be much below the top of the target band." As a result, our central scenario remains one in which the RBA - after a "pause" into Q3-2010 - progressively raises the cash rate to 5.00% by end-2010 and

further to 6.00% by Q3-2011. That is, to a punitively restrictive level for domestic focussed sectors and regions. Despite this, we find one interesting embellishment in the minutes. While the language surrounding housing finance is generally unchanged from what the RBA has recently been using, e.g. new “housing loan approvals had slowed but the overall pace of housing credit growth remained solid” and the “housing market had remained strong”, in the final paragraph of the *Considerations* section the minutes note that “housing loan approvals” were “falling noticeably”. This divergence in language suggests to us that the ‘staff view’ as presented to the Board remains focussed on the (lagging) signs of house price strength and measures such as auction clearance rates, while we suspect that the view of the Board - reflected in the final summary comment - was less sanguine. Board members potentially viewing the fall in housing finance as indicative of the bottom end of the housing market already retrenching under the combined weight of higher interest rates and tighter lending standards and the prospect that this has started to filter up into moderating ‘trade-up’ demand in the middle market. (Leaving the top end market - which largely does not face the funding constraints of the mid to lower markets - and the price-following investor demand as the remaining housing market drivers.)

Research

Bradken Limited (\$7.25) – Following the acquisition of Almac for CAD\$47.5mn, Deutsche, UBS and GSJB Were have retained a BUY whilst Credit Suisse has maintained a HOLD. UBS has a price target of \$8.30.

James Hardie Industries Se (\$7.70) – With cyclically high pulp costs, Deutsche has retained a HOLD whilst Credit Suisse has **downgraded** to a HOLD with a price target of \$9.00.

Mount Gibson Iron Limited (\$1.42) – Following MGX’s recent share price weakness, Credit Suisse has **upgraded** to a BUY with a price target of \$2.25.

Premier Investments Limited (\$6.66) – With an improving consumer spending environment and the likelihood of acquisitions, Credit Suisse has maintained a BUY whilst Citigroup has **upgraded** to a BUY. Credit Suisse has a price target of \$8.20.

MacArthur Coal Limited (\$11.25) – With the rejection of the Peabody proposal, Citigroup has **upgraded** to a BUY with a price target of \$14.50.