

NEXT Daily – 20th May 2010

Overseas

The **Dow Jones** fell 66 pts or 0.63% to 10,444.37 (YTD 0.16%), **S&P 500** fell 5 pts or 0.51% to 1,115.05 (YTD 0.02%) and the **NASDAQ** fell 18 pts or 0.82% to 2,298.37 (YTD 1.30%)
The **FTSE** fell 149 pts or 2.81% to 5,158.08 (YTD -4.76%), **Nikkei** fell 55 pts or 0.54% to 10,186.84 (YTD -3.42%) and the **Hang Seng** fell 365 pts or 2.64% to 19,578.98 (YTD -11.45%)

Oil rose \$1.92 to \$71.05 a barrel.

Gold fell \$32.30 to \$1,191.00 an ounce.

Base metals were weaker with Copper down 2.8% to \$294.00, Zinc fell 4.3% to \$83.00 whilst Aluminium was down 2.7% to \$89.00 and Nickel fell 3.9% to \$963.00.

BHP ADR's trading at \$37.17 vs the Aussie close of \$36.97.

SPI 200 Futures closed up 7 pts at 4,396.

Ideas

US Equities once again fell last night, erasing the year's gain for the S&P 500 as a short-selling ban in Germany weighed on world stock indices. News that home foreclosures jumped to a record high, also gave way to downward action during the session. One in seven US mortgages is now in delinquency or foreclosure. Nevertheless, officials from the Federal Reserve System upgraded their growth estimates for the year; correspondingly they lowered unemployment and inflation forecasts. Finally the Euro staged a rally, as rumours broke that Greece will leave the union.

Following the recent European sovereign debt concerns JP Morgan (JPM) has put together the following summary from their UK desk summarising very well the recent issues in Europe and the UK:

1. The Germans have banned NAKED short sales of German financial companies, Euro Government bonds and Euro debt linked CDS'. For Equity markets this only affects intra-day traders because investors already have to have borrow in place before short selling over the close. However, there are concerns that there is more regulation to come and this has resulted in derisking trades particularly in the currency markets (Ref: EUR/USD, GBP/USD, AUD vs everything). There are 3 main concerns; firstly that this move wasn't co-ordinated with the rest of EU, secondly banning naked CDS trading takes away a hedging instrument and finally.....do the German regulators know something that we don't??

2. The UK has agreed to draft EU regulation of Hedge and PE funds. This raises the concern that UK funds will be regulated by a proposed new pan European regulator. The proposed legislation is onerous including the requirement for government approval to operate these funds, leverage restrictions, pay restrictions, and additional protection for investors (which some say will make sourcing investors from EU very hard indeed)..

3. Greece today repaid EUR8.5bn of 10 year bonds using EU emergency loans. The next Greek Bond redemption is March '11. Greek 2 year notes are yielding around 15x comparable German debt. Greece have agreed, somewhat reluctantly, to austerity measures including a 14% cut of budget spending. There are still questions being raised about whether the bailout package is enough, whether it

actually solves the problem or just transfers it, and whether the government(s) can deliver on the fiscal cuts. There are rumours circulating that they will exit the euro.

In summary, JPM argue that these issues have all up resulted in more regulation, more fiscal uncertainty and more jittery money managers. The impact is Euro and GBP cratering, European equity markets taking a bath, real equity volumes very light, brokers heading for a stiff tom collins (so to speak).

Capital Economics (www.capitaleconomics.com) has argued that the Greek debt crisis is now prompting a rethink of policy as far afield as Beijing. The final impact of Europe's troubles on its demand for Chinese goods is still unclear. But senior officials are already concerned about the impact on Chinese exporters of the renminbi's recent trade-weighted gains, which are the result of a weakening euro. As a result, Capital Economics went on to make the following comments:

For this reason, we have scaled back our expectations of renminbi gains against the dollar. We now think the renminbi (currently at 6.83/\$) will finish 2010 at 6.75 and only reach 6.50 by end-2011. This would be a 5% gain against the dollar by the end of next year and, based on our forecasts for other currencies, a 15% gain in trade-weighted terms. Our previous forecasts were 6.60 and 6.20. This is a little faster than is priced into the non-deliverable forwards market, but not much. However, we are not convinced that the timing of any return to currency reform in China will be affected by what has so far happened in Europe. There appears to be a consensus in Beijing that a stronger, more flexible currency is in China's long-run interests. But the question of when to restart renminbi/dollar appreciation has always been as much political as economic. In particular, when Tim Geithner delayed publication of the US Treasury's report on currency manipulation, he talked of a three-month period in which the US would try to advance its interests through discussions with China. Those three months are up at the end of June. If China has not moved by then, initiative on the issue is likely to slip from the Treasury to Congress, which seems set on a more hardline stance. Given its reluctance to restart currency reform under pressure from overseas, China risks backing itself into a corner if it does not make a pre-emptive move. As a result, we continue to believe that the renminbi will resume its climb against the dollar at some time between next week's Strategic and Economic Dialogue with the US and the G20 summit at the end of June. But the pace of gains should be meagre, and trade tensions won't fade for long.

Research

David Jones Limited (\$4.29) – With recent share price weakness, GSJB Were has retained a BUY, Credit Suisse has **upgraded** to a BUY whilst Citigroup, UBS and JP Morgan have maintained a HOLD and Macquarie has **upgraded** to a HOLD. GSJB Were has a price target of \$6.23.

AWB Limited (\$0.99) – Following the announcement of AWB's 1H10 profit before tax, Citigroup, Deutsche, Credit Suisse, UBS and JP Morgan have retained a BUY whilst GSJB Were and Macquarie has maintained a HOLD. Citigroup has a price target of \$1.35.

PaperlinX Limited (\$0.77) – Following recent share price strength, UBS has **downgraded** to a SELL with a price target of \$0.74.

Boart Longyear Limited (\$2.98) – With the recent share price movement, Credit Suisse has **upgraded** to a HOLD with a price target of \$3.50.

Orica Limited (\$26.08) – Following recent share price underperformance, Credit Suisse has **upgraded** to a BUY with a price target of \$30.65.

Seven Group Holdings Limited (\$6.80) – Following SVW’s transformation from a listed media and telecommunications investment company into a diversified industrial group, JP Morgan has **downgraded** to a HOLD with a price target of \$7.32.

Stockland (\$3.67) – Following SGP’s market update, JP Morgan has **upgraded** to a BUY with a price target of \$4.04 whilst Macquarie has retained a SELL.

Infigen Energy (\$0.83) – With IFN’s recent share price weakness, Wilson HTM has **upgraded** to a BUY with a price target of \$0.83.

Bradken Limited (\$7.32) – Following the acquisition of Canadian Almac Machine Works, Macquarie has **upgraded** to a BUY with a price target of \$8.77.