

## NEXT Daily – 21<sup>st</sup> May 2010

### Overseas

The **Dow Jones** fell 376 pts or 3.60% to 10,068.01 (YTD -3.45%), **S&P 500** fell 43 pts or 3.90% to 1,071.59 (YTD -3.90%) and the **NASDAQ** fell 94 pts or 4.11% to 2,204.01 (YTD -2.87%)

The **FTSE** fell 84 pts or 1.65% to 5,073.13 (YTD -6.28%), **Nikkei** fell 156 pts or 1.54% to 10,030.31 (YTD -4.89%) and the **Hang Seng** fell 33 pts or 0.17% to 19,545.83 (YTD -10.64%)

Oil fell \$1.59 to \$68.28 a barrel.

Gold fell \$12.60 to \$1,181.15 an ounce.

Base metals were mixed with Copper up 1.69% to \$298.59, Zinc rose 0.97% to \$83.65 whilst Aluminium was down 0.49% to \$88.93 and Nickel fell 0.48% to \$958.33.

BHP ADR's trading at \$36.11 vs the Aussie close of \$36.75.

SPI 200 Futures closed down 106 pts at 4,211.

### Ideas

Citing their UK desk, JP Morgan (JPM) said that investors are heading towards maximum bearishness in Europe with the rest of the world following. The issue they believe is that the GFC was stopped out when governments stood behind the banks however, this time there is no one to stand behind the governments. Exacerbating the bearishness is rumours around the market that some hedge funds are being hit with redemptions and that will take markets below support levels. SABMiller (-6%) worried the market as they commented that it doesn't expect to see a broader recovery in consumer spending until the second half of the current fiscal year. European shares suffered another beating on rumours that other eurozone countries might follow Germany in banning naked short selling of certain financial instruments and amid rising concerns that the euro-zone debt crisis could curtail already uneven global growth. Market participants awaited a crucial vote tonight in the German parliament over its contribution to the European Union / International Monetary Fund rescue package. The US market fell 3-4% with the S&P 500 alling through its 200 day moving average. Not only were there concerns from Europe but the US jobs data was also worrying. The number of workers who filed new claims for unemployment insurance climbed 25,000 to a seasonally adjusted 471,000 (Mkt est: 440k) for the week ended May 15. An index of leading economic indicators declined 0.1% in April (Mkt est: +0.2%) after rising a downwardly revised 1.3% in March (Prev: +1.4%). That was the first negative reading since March 2009.

**Capital Economics ([www.capitaleconomics.com](http://www.capitaleconomics.com)) said the sharp falls in many commodity prices over the past month reflect a mix of pressures and worries, some of which are temporary but most of which are not. Capital Economics said:**

The recent falls can be attributed to three main factors. The first is worries about China. The declines in industrial metals prices have coincided with growing fears about overheating in general and the crackdown on property speculation in particular. As we have discussed at length in our China service, these fears at least are overdone. But developments in China will be a negative for commodity markets for other reasons. China's headline GDP growth is strong but this largely reflects weakness a year ago. On a quarterly basis the economy already appears to be decelerating as the stimulus from last year's surge in bank lending begins to fade. In the meantime, China's demand for commodities has been temporarily boosted by stockpiling. In other words, even without the aggressive policy tightening that many currently fear, China's demand for commodities should slow.

The second negative for commodity prices is the crisis in Europe. The direct effect of recession in the euro-zone periphery on the global demand for commodities is, of course, small (China obviously trumps Greece). In the meantime, the data from other major economies, including the US and Japan, has generally been better than anticipated.

But the euro-zone's problems are a painful reminder that the global financial crisis has only been partly resolved by transferring it from the banking sector to the public finances. Even in those economies where fiscal policy is still supportive, again including the US and Japan, the stimulus will fade next year. What's more, the uncertainty created by doubts over the future of the euro is encouraging profit-taking on all sorts of riskier assets, including commodities.

The third negative, partly related to the others, is the resilience of the dollar. The boom in commodity prices until 2008 took place when global growth was strong, credit was easy and the dollar weak. In contrast, the backdrop for 2011 and beyond is likely to be a long period of lacklustre growth, tight credit and dollar strength. In short, our view is that it would be wrong to assume that commodity prices will recover to their immediate pre-crisis levels as if nothing had happened in the meantime.

**On the resource sector Credit Suisse (CS) said we've had many investor meetings in the past four weeks and investor concerns have been remarkably consistent.** Prior to the announcement of the Australian resource super profits tax (RSPT), the two key concerns voiced most frequently by investors were the Euro debt crisis and a China slowdown. With the proposed RSPT, the concerns now include the latter. Uncertainty is high and risk appetite has fallen - and the Australian mining index has retraced 13% in the last month. CS believes Rio and BHP are trading at discounts of 23% and 18% to their post-RSPT base case valuations of A\$82/sh and A\$45/sh, respectively, and look cheap enough in absolute terms and relative to domestic peers. They do acknowledge there is still significant uncertainty around the macro environment and Australian tax, Rio and BHP are cheap enough that the risk/reward equation now works for investors. While valuations have become interesting in pure-play exposures, CS think Rio and BHP remain the best way to play the sector providing similar/greater value than pure plays, but for lower risk. On the European debt issues CS believes core Europe remains robust, the debt problem is a periphery Europe issue and the ECB is committed. Global policy stimulus remains supportive of above trend growth near term and China remains strong (IP has been resilient and PMI data is supportive of sustained growth).

## Research

Foster's Group Limited (\$5.22) – Following group presentations delivered by its Managing Director of Carlton & United Breweries (CUB), Deutsche has maintained a BUY and UBS has retained a HOLD whilst JP Morgan has **upgraded** to a HOLD and GSJB Were has reiterated a SELL. Deutsche has a price target of \$6.20.

Sonic Healthcare Limited (\$12.62) – Following their announcement of an earnings upgrade, UBS and GSJB Were have retained a HOLD whilst Macquarie has **downgraded** to a HOLD and Credit Suisse has maintained a SELL. Macquarie has a price target of \$14.53.

AXA Asia Pacific Holdings Limited (\$5.65) – With the ACCC opposing NAB's proposed acquisition of AXA, Credit Suisse has **upgraded** to a HOLD with a price target of \$6.15.

Computershare Limited (\$10.82) – With substantially lower corporate actions in 2H10, Credit Suisse has **upgraded** to a BUY with a price target of \$13.60.

ASX Limited (\$31.67) – With anticipation of competition in cash market execution to emerge by the end of the year, JP Morgan has retained a BUY whilst Macquarie has **downgraded** to a SELL. JP Morgan has a price target of \$41.16.