NEXT Daily – 3rd June 2010

Overseas

The **Dow Jones** rose 225 pts or 2.25% to 10,249.54 (YTD -1.62%), **S&P 500** rose 27 pts or 2.58% to 1,098.38 (YTD -1.40%) and the **NASDAQ** rose 58 pts or 2.64% to 2,281.07 (YTD 0.58%).
The **FTSE** fell 11 pts or 0.23% to 5,151.32 (YTD -4.84%), **Nikkei** fell 108 pts or 1.12% to 9,603.24 (YTD -9.03%) and the **Hang Seng** fell 25 pts or 0.13% to 19,471.80 (YTD -10.99%)
Oil rose $1.76 to $73.73 a barrel.
Gold fell $1.10 to $1,224.00 an ounce.
Base metals were weaker with Copper down 1.20% to $301.00, Zinc fell 2.70% to $80.00 whilst Aluminium was down 0.40% to $89.00 and Nickel fell 4.20% to $888.00.
BHP ADR's trading at $38.51 vs the Aussie close of $37.83.
SPI 200 Futures closed up 81 pts at 4,468.

Ideas

The US market posted a strong rally into the close with a stronger-than-expected surge in April pending-home sales boosting market sentiment. Bargain hunting, short covering, an upgrade for the financial sector from Fitch, higher auto sales, positive commentary from Bank of America on credit trends, and an extraordinarily bullish call on both Citigroup (and BofA) added to the upbeat tone. The National Association of Realtors' index for pending sales of used homes increased for a third straight month, up 6.0% (Mkt est: +5%) to 110.9 in April however, this was the last month for the government tax credit so we wouldn't read too much into these numbers JP Morgan said. Europe saw nervous morning trade, with the FTSE Eurofirst 300 fall as much as 1.5% but improvement came as positive figures from the US on home sales were announced in the afternoon.

Yesterday's downgrade from IAG saw it takes hit on UK, as such UBS has cut EPS 37% in FY10E and 4% in FY11E. UBS said the downgrade is a one off pre-tax charge of $365 million relating to deterioration in claims in its UK business. They expect this to be the last of the major downgrades given experience of competitors in the UK. At their respective 1Q Interim Management Statements both Royal & Sun Alliance and Admiral stated on their conference calls that there was nothing further to report on UK bodily injury claims. Further, bodily injury claims at Admiral showed an improvement in the latest trends. The UK business continues to be a drag on the group said UBS. From 2007 to 2010 they estimate this division will have cost shareholders $223 million in operating losses, excluding the goodwill write downs that have also occurred. Using favourable earnings assumptions it could take until 2014 for the division to earn this loss back. Unfortunately for IAG, there does not appear to be an appetite for UK motor M&A at present which could offer an easy solution to this difficult division. **However the Australian business still appears strong, the group guided insurance margins ex the UK in 2010 to 11-12%. This is an outstanding result given the severe weather experienced in the last five months and the conservative provisioning the group has set aside said UBS.**

UBS also reported that JFE Steel confirmed recent reports that BHP Billiton-Mitsubishi Alliance (BMA) had settled hard coking coal quarterly contract prices for Jul-Sep at US$225/t fob: +$25/tqoq or +12.5%qoq on the Apr-Jun price. Given that these deals involve major players of the trade, then we would expect the HCC US$225/t fob to be a benchmark for similar quarterly priced contracts covering Jul-Sep among other players, in the same sense as benchmarks were set for the now-defunct annual price negotiations. This headline price came in below UBS' US$240/t fob forecast (13-Apr-10).

The 8% correction in HCC's spot over the last 4 weeks (now $215/t fob) may have prompted BMA to agree to this lower-than-expected deal. UBS longer-term forecast is unchanged, so with this quarterly settlement – UBS JFY10 average is now slightly lower, from US$215/t fob to US$211/t fob (negligibly small impact on equities). Following this deal, UBS believe the risk for prices over the short-term is to the downside, because the global steel trade is seasonally quieter in H2CY (growth occurs in H1). Also, our JFY10 PCI (US$170/t fob) & SSCC ($167/t fob) forecasts now carry $5-10/t downside risk (i.e. no news on these price talks yet).

Research

Insurance Australia Group Limited ($3.39) – Following their announcement of a one-off A$365m charge in relation to large bodily injury claims affecting its UK motor operation (Equity Red Star), Credit Suisse, UBS and JP Morgan have retained a BUY whilst GSJB Were and RBS maintain a HOLD. Macquarie has **upgraded** to a HOLD and Credit Suisse has a price target of $4.75.

Austbrokers Holdings Limited ($5.15) – Following AUB's recent share price performance, UBS has **downgraded** to a HOLD with a price target of $5.55.

Equinox Minerals Limited ($4.25) – With EQN's recent share price movements, GSJB Were and RBS have retained a BUY whilst Credit Suisse has **downgraded** to a HOLD. GSJB Were has a price target of $5.75.

Ramsey Health Care Limited ($14.40) – Following recent share price movements, Credit Suisse has **downgraded** to a HOLD with a price target of $15.75.

Downer EDI Limited ($4.68) – With DOW hosting its annual investor day, Credit Suisse has maintained a BUY whilst Macquarie, GSJB Were and JP Morgan have retained a HOLD. JP Morgan has a price target of $7.33.