

NEXT Daily – 7 June 2010

Overseas

The **Dow Jones** fell 323 pts or 3.15% to 9,931.97 (YTD -4.76%), **S&P 500** fell 37 pts or 3.44% to 1,064.88 (YTD -4.50%) and the **NASDAQ** fell 83 pts or 3.64% to 2,219.17 (YTD -2.20%).

The **FTSE** fell 85 pts or 1.63% to 5,126.00 (YTD -5.30%), **Nikkei** fell 13 pts or 0.13% to 9,901.19 (YTD -6.12%) and the **Hang Seng** fell 6 pts or 0.03% to 19,780.07 (YTD -9.57%)
Oil fell \$3.10 to \$71.51 a barrel.

Gold rose \$13.25 to \$1,249.70 an ounce.

Base metals were weaker with Copper down 3.79% to \$283.45, Zinc fell 6.03% to \$73.03 whilst Aluminium was down 3.86% to \$83.88 and Nickel fell 3.87% to \$811.07.

BHP ADR's trading at \$36.26 vs the Aussie close of \$37.87.

SPI 200 Futures closed down 114 pts at 4,353.

Ideas

Friday nights sell off was broad based with all 30 of the Dow's components closing in the red. Including heavy declines in economically sensitive stocks Caterpillar (-5.5%) and American Express (-5.3%). The euro hit a fresh four-year low of US\$1.1924 before settling down 0.7% at US\$1.1937. The common currency initially weakened Friday on worries Hungary would be the next country to fall victim to a debt crisis. The US jobs data was disappointing despite being boosted by hiring for the census. Nonfarm payrolls rose 431,000 (Mkt est: 535k). The market reacting badly to the details that just 41,000 private-sector jobs were added (Mkt est: 188k), the fewest since January, after adding 218,000 in April.

With the G20 leaders meeting in South Korea this week, Deutsche Bank (DB) have issue the following note on the impact from international regulatory news flow. DB argue that the focus is likely to be on an economic recovery given recent challenges in bedding down a global bank tax. Meanwhile, in the US, Congress is preparing to reconcile the House of Representatives and Senate bills on financial regulation. DB continue to believe that reaching a consensus on financial regulation is going to be challenging and go on to make the following comments:

Key International regulatory news for the week

G20 Ministers are currently in Busan, South Korea, endeavouring to lay the groundwork for the next meeting in Canada later this year. It is said that the focus is likely to be on global recovery, as Ministers attempt to restore confidence in financial markets after the recent fall out. On the bank tax, some officials are playing down chances of a consensus on bank tax, and Treasury Secretary Tim Geithner said "I don't think we're on the verge of a global consensus on a bank levy yet".

Reconciliation of the House of Representatives financial reform bill passed last year and the Senate version is said to kick off next week as Congress returns from recess. The staffs of Dodd and Frank have been reviewing both versions of the bill and have commented that the bills are similar - "This is one of the rare occasions when the two bills really are very close to each other,".

In financial services regulation that is expected to be announced later this month, Chancellor George Osborne will use his Mansion speech on June 16 to give the Bank of England regulatory powers, which would be taken from the FSA. The Bank

of England will gain new powers of macro prudential regulation and will also be involved in micro prudential regulation.

International consensus continues to be difficult reach

While we can see the US bedding down a revised law on financial regulation sooner rather than later now that the Senate has passed the core bill, we believe that most countries are some way behind the US in their advances on financial reform. We continue to believe that reaching a global consensus on both the bank tax and overall bank regulation will be challenging.

JP Morgan's (JPM) Global coal team have release a note indicating that they remain positive on the longer-term outlook for coal but expect a slowdown in 2H10. JPM believe the demand from China in 2009 was mainly strategic and opportunistic. Demand out of China in 2010 is expected to be affected by the tightening in government policy, increased power tariffs and availability of domestic thermal coal. They expect China to remain an important importer of coal and iron ore however, as China cools the property market, there will be reduced support for prices. On the supply side, coal prices should be supported as Indonesia consumes more of its own (thermal) coal and Russian coaking coal supply is limited in the near term due to the mine accident at Rospadskaya. In the Australian coal names, JPM have a buy on Centennial Coal Company Limited (CEY). The upside will come from CEY increasing the proportion of coal for export, successfully re-pricing domestic contracts as they roll off and the investment in new export mine capacity and export infrastructure.

Research

BHP Billiton Limited (\$37.87) – Following the US government extending the deepwater ban on drilling wells for 6 months in the deepwater GOM & offshore Alaska and cancelling pending lease sales offshore Virginia & the western GOM, UBS has retained a BUY with a price target of \$53.50.

Woolworths Limited (\$27.01) – With WOW almost three quarters of the way through its on-market buyback of A\$400mn, JP Morgan has maintained a HOLD with a price target of \$27.01.