NEXT Daily – 11 June 2010

Overseas

The **Dow Jones** rose 273 pts or 2.76% to 10,172.53 (YTD -2.45%), **S&P 500** rose 31 pts or 2.95% to 1,086.84 (YTD -2.53%) and the **NASDAQ** rose 59 pts or 2.77% to 2,218.71 (YTD -2.22%).
The **FTSE** rose 46 pts or 0.92% to 5,132.50 (YTD -5.18%), **Nikkei** rose 103 pts or 1.10% to 9,542.65 (YTD -9.52%) and the **Hang Seng** rose 11 pts or 0.06% to 19,632.70 (YTD -10.24%)
Oil rose $1.07 to $75.45 a barrel.
Gold fell $16.49 to $1,217.01 an ounce.
Base metals were mixed with Copper up 1.12% to $289.49, Zinc fell 1.92% to $76.62 whilst Aluminium was up 1.20% to $86.99 and Nickel fell 1.73% to $856.61.
BHP ADR's trading at $38.51 vs the Aussie close of $37.62.
SPI 200 Futures closed up 68 pts at 4,509.

Ideas

Some positive news has finally come from Europe: there have been some decent debt auctions (Italy, Portugal, Spain) as well as a better-than-feared ECB meeting today. The European Central Bank held interest rates steady at 1%. Stocks, along with the euro, got a lift after Mr. Trichet said the ECB will keep its liquidity measures in place. At the same time, concerns over growth were assuaged as the ECB raised its forecast for growth in the euro zone this year, though it lowered its estimate for 2011. It now expects GDP in the euro bloc to grow by between 0.7% and 1.3% this year, up from a previous estimate of 0.8%. Traders were absorbing news that the Bank of England's monetary policy committee had left interest rates at historic lows of 0.5% and kept its quantitative easing at £200bln. Miners (+3.4%) delivered the bulk of the rally overnight, extending gains after the Herald Sun newspaper said the Australian government would soon announce major changes to a controversial mining tax that has weighed on the sector. Miners were also supported by positive economic data from China, where robust growth in May exports and imports testified to the underlying momentum of the world's third-largest economy. The US and UK markets both reacted positively to the strong export reports from China.

Deutsche Bank (DB) have refreshed their views on the Australian Energy sector post running sessions with Wood Mackenzie (Provide research and consulting services for the global mining, metal, and energy industries), favouring stocks with oil exposure, positive LNG momentum through advanced projects, and discount to fundamental value. As a result, they have upgraded Woodside from Hold to Buy, and downgraded Origin from Buy to Hold. DB said combined OPEC and non-OPEC production increases are forecast by Wood Mackenzie to be more than 6mmbbl/d by 2015, they believe this will be insufficient to meet recovering global demand, led by China. As a result they see a call on OPEC, with spare capacity falling to 2007 levels by 2015, and therefore upward pressure on oil pricing from 2011 and forecast a return to triple digit oil prices by 2015. DB said:

> Wood Mackenzie were noticeably more upbeat on the global LNG market relative to our previous Energy Seminars in May 2009. The rise of US shale gas and economic weakness has unquestionably impacted demand; however the supply side has also been impacted by the economic environment, and the 2011-13 outlook points to limited new supply. A significant emerging theme in the Pacific Basin is the impact of historic "bedrock" LNG projects in Indonesia, Brunei, Malaysia and Alaska that are running out of gas. The decision by TEPCO to sign with Chevron's proposed

Wheatstone project in preference to rolling over legacy contracts underlines the opportunity for new Australian projects. While the threat of Qatar remains very real in the Pacific Basin, Qatar's marketing strategy continues to demonstrate contracting discipline to seek premium pricing and long term contractual arrangements.

US shale gas has impacted LNG imports US shale gas has been a major energy thematic in recent years. With production approach 10bcf/d, shale gas has succeeded in offsetting historic declines in US gas production. While shale gas is more expensive than conventional or CSG sources, US shale gas has displaced Qatari LNG as shale gas is keeping US gas prices below European and Pacific Basin pricing.

2010 is shaping as a big year for Australian LNG projects Four Australian LNG projects are targeting FID in 2010, and while some timelines are likely to slip, 2010 is shaping as a big year. Australian projects continue to face challenges from reserve levels, retention lease issues and a government-proposed RSPT, but Wood Mackenzie believes GLNG and QCLNG will achieve FID in 2010, with Woodside's Pluto-2 a wildcard pending exploration or negotiated outcomes.

On the advertising sector Royal Bank of Scotland (RBS) said they believe the advertising recovery remains on track, despite some signs of broader consumer weakness. RBS believe ad spend is at the first stage of return to mid-cycle levels and they revisit their mid-cycle valuation analysis. RBS said the advertising recovery can withstand a period of near-term consumer weakness RBS' base-case economic forecast is that current consumer weakness is a temporary pause in the overall Australian economic recovery, rather than the start of a more prolonged downturn. On this basis they expect the advertising recovery that is under way to remain on track and that advertising will continue its return towards mid-cycle levels. They believe the pull back in advertising through the GFC was out of proportion with the relatively small downturn in the overall Australian economy and that the current recovery is simply the ad market getting back in step with the broader economic fundamentals. RBS model an advertising CAGR of 5.5% over the next cycle (trough-peak), below the c6.5% growth through previous cycles, due to increased audience fragmentation and reduced pricing power. TV is experiencing the fastest recovery and RBS expect it to be back to midcycle levels by FY12 (previously FY13). Newspaper ad spend is recovering more in line with RBS expectations and they forecast it will be back to mid-cycle levels by FY13. RBS have revisited their mid-cycle valuation analysis where they calculate total shareholder return (TSR) by applying a range of PE multiples to FY13F mid-cycle earnings. This analysis shows the most upside for the publishing stocks, for which it seems only a limited recovery is priced in (eg, FXJ offers a TSR of 30% per annum to FY13 based on its previous mid-cycle multiple and 25% on a 14.2x long-term market PE multiple). NWS remains their top pick in the sector, followed by FXJ, APN and SXL. WAN's low operating leverage makes it a relatively low-risk way to gain exposure to the ad recovery, and they move it back to a Buy (from Hold).

Research

Mirvac Group ($1.36) – With MGR achieving its major objective of de-risking earnings by bulking up the trust, UBS has **downgraded** to a HOLD with a price target of $1.40.
ING Industrial Fund ($0.37) – Following IIF's portfolio and capital management update where they reconfirmed operating income guidance, Macquarie has **upgraded** to a HOLD with a price target of $0.42.