

NEXT Daily – 17 June 2010

Overseas

The **Dow Jones** rose 4 pts or 0.05% to 10,409.46 (YTD -0.18%), **S&P 500** fell 0.06% to 1,114.61 (YTD -0.04%) and the **NASDAQ** was flat at 2,305.93 (YTD 1.62%).

The **FTSE** rose 20 pts or 0.39% to 5,237.92 (YTD -3.23%), **Nikkei** rose 179 pts or 1.81% to 10,067.15 (YTD -4.54%) and the **Hang Seng** rose 10 pts or 0.05% to 20,062.15 (YTD -8.28%)

Oil rose \$0.70 to \$77.64 a barrel.

Gold fell \$3.88 to \$1,230.28 an ounce.

Base metals were weaker with Copper down 0.45% to \$300.43, Zinc fell 0.66% to \$81.42 whilst Aluminium was down 0.37% to \$89.53 and Nickel fell 0.94% to \$905.82.

BHP ADR's trading at \$39.07 vs the Aussie close of \$39.23.

SPI 200 Futures closed up 7 pts at 4,567.

Ideas

U.S. stocks consolidated Tuesday's stellar gains despite another bout of negative economic, sovereign and corporate news. A drop in housing starts, a disappointing outlook from economic bellwether FedEx, a profit warning from Nokia, and news that the premium investors demand to hold 10-year Spanish government bonds rather than euro-zone benchmark German Bunds hit a euro lifetime high - 2.24 percentage points - were significant headwinds for the major stock averages. Despite material declines in seasonally adjusted headline levels, on an original basis US housing starts for May10 improved vs. the pcp, once again driven by an improvement in single-family starts. On an original data basis, Permits also continued to increase, up ~6% vs. the pcp. Importantly though, the rate of increase relative to levels of a year ago has declined. This decline coincides with the April end to the Federal tax credit program. Following a more than four-hour meeting with President Obama, BP Chairman Carl-Henric Svanberg announced that the company will not pay any further dividends this year. BP also said it was creating a \$20bln fund over the next 3 ½ years to cover compensation claims arising from the massive Gulf of Mexico spill.

Overnight QBE held its half-yearly investor update in London. RBS has commented on the update noting that year-to-date insurance margins have been impacted by low investment yields and high claims experience. While the company has maintained its full-year margin guidance of 16-18%, it expects its 1H10 margin to be at the lower end of this range. Overall, QBE says 2010 is shaping as another tough year particularly as the global rating environment remains soft. **RBS went on to highlight the following points:**

QBE has finally put an expected loss on its Deepwater Horizon oil rig exposure of A\$29m. This compares to an estimate loss of A\$108m for the Perth storm. While QBE's 1H10 large risk claims of A\$555m are tracking inside full-year allowances of A\$1.1bn, clearly 2010 is shaping as a full year for catastrophes. These large claims will likely limit full-year outperformance particularly with reserve releases slowing in FY09.

While QBE is now looking cheap on a range of valuation metrics, we do see no clear catalysts for the stock near term. This is particularly with global bond rates likely to stay at historically low levels for an extended period. With 1H10 tough and large

claims tracking in line with allowances, we continue to believe the stock will struggle to outperform its full-year guidance. We therefore maintain our Hold call with a price target of A\$23.48.

GSJBW has reiterated their valuation on QBE post the investor update and has highlighted their investment view as follows:

Short Term (0-6 months): Uninspiring. The premium rate cycle remains soft, so QBE will be relying on acquisitions (plus ongoing \$A weakness?) to keep thing ticking along.

Medium Term (6-18 months): Significant macro-driven upside potential (from the combination of higher interest rates and a lower \$A...with the "thematic trade" likely to kick in some time before northern hemisphere interest rates actually start to rise).

Long Term: When we eventually hit the "sweet spot" for the interest/exchange rates thematic, that could be the time to consolidate (rather than chase)... because CEO/CFO succession risk does worry us.

The RBA June Minutes & Speech was released on Tuesday GSJBW have highlighted the following points from the meeting.

RBA Minutes: According to the RBA, the medium run "outlook remains positive" but the Minutes cautiously note some near term issues. Specifically, i) uncertainties on global growth have escalated, even if recent global macro data has been quite positive and the RBA has not yet downgraded its outlook; ii) growth in domestic activity in early 2010 was patchy and skewed towards (temporary) stimulus from public sources; iii) the economy continues to adjust to the rapid removal of "very expansionary policy settings" last year.

RBA Speech: A speech by the Deputy Governor brings into focus the position of household debt in Australia, relative to its history, to global peers and with respect to financing. It reinforces the sentiment of the Governor last week when he declared he was comfortable with current levels of household debt. The speech also makes it very clear that key debt ratios have not surged higher in the past decade, but have been remarkably stable.

Monetary Policy: The substance and tone of today's news flow reinforce our belief that the RBA is very confident in the stability of the Australian financial system and positive overall growth outlook – but is in no rush to tighten policy further. We expect the current pause to extend to November, before a 25bp hike to finish 2010 at 4.75%

Deutsche has made the following comments in relation to the minutes. "CPI data for the June quarter would provide information on ... inflationary pressures" In our view, a key aspect of the June Board meeting minutes is the nomination of the June quarter CPI, due in late July, as a key upcoming data point. For us, this is useful in the context of the "near term" – the phrase used by the RBA in its post-meeting statement to describe the time-frame over which the current policy setting (4.5%) might extend. In other words, we suspect that August is looming as the next 'live' meeting for the RBA, once the latest round of prices data are available and clarity about the "situation in Europe" has been given further time to evolve. Whether this 'live' meeting is acted upon of course depends on the outcome of these events, but our long-held outlook remains unchanged - the RBA's relatively optimistic outlook for the Australian economy will see further cash rate rises in the second half of this year.

Bloomberg indicates that all but 1 economist surveyed expects rates to remain on hold at the July meeting.

Research

Amcor Limited (\$6.62) – Following AMC's acquisition of Ball US Plastic Packaging for US\$280mn, Deutsche, Credit Suisse, GSJB Were, Macquarie and JP Morgan have retained a BUY whilst UBS has **downgraded** to a HOLD. Credit Suisse has a price target of \$7.75.

Atlas Iron Limited (\$2.15) – With AGO announcing a 20-40mt exploration target at Wodgina, Credit Suisse has retained a BUY whilst Macquarie has **upgraded** to a HOLD. Credit Suisse has a price target of \$3.15.

Crane Group Limited (\$8.72) – Following CRG's AGM, Macquarie has **downgraded** to a HOLD with a price target of \$8.20.