

26 July 2010

## LOCAL MARKETS SET TO OPEN THE WEEK ON A POSITIVE NOTE

Index	Index Level	Change (%)	Stocks	Price (\$)	Change (%)	Price rises	Price (\$)	Change (%)
All Ordinaries	4475	1.83	ANZ	22.41	1.40	LEI	29.66	4.22
ASX S&P200	4458	1.91	CBA	51.24	2.64	CPU	10.38	3.80
SPI Futures	4476	0.90	NAB	24.37	2.57	ABP	0.41	3.80
Dow Jones (US)	10425	0.99	WBC	22.73	2.62	PTM	5.08	3.67
FTSE (UK)	5313	-0.02	MQG	39.43	2.42	IPL	3.19	3.57
Shanghai(China)	2572	0.38	BHP	39.68	2.06	Price falls	Price (\$)	Change (%)
Nikkei 225 (Jap)	9431	2.28	RIO	69.86	2.39	CYA	0.78	-2.50
Hang Seng (HK)	20815	1.10	WPL	41.92	2.24	PMC	1.47	-0.68
AUS/USD	0.8942	0.10	WOW	25.67	-0.35	HDF	1.32	-0.38
Gold (\$US)	1187.80	-0.65	WES	29.14	2.86	WOW	25.67	-0.35
Oil (\$US)	78.97	-0.21	HVN	3.65	0.83	TLS	3.20	-0.31

### Market Summary

Australian trade was positive Friday after large gains in the US in the previous session. The Friday night action saw world markets push higher as relief was felt after the release of the European bank stress testing data. Of the 91 banks tested, only 7 were in need of additional capital which was seen as a better than expected outcome so markets across the world rose. Some analysts however questioned the strictness of the tests. Today the Australian market can expect a better day with the SPI futures up 40 points.

Also adding to the US markets strength has been the level of earnings coming from the private sector as economic growth rebounds from recessionary lows. GE increased its dividend 20 percent; Verizon, Microsoft and Honeywell all beat the markets estimates of earnings and even the carmakers are looking better with Ford making a profit and GM looking to refloat its business. While the topline economic growth appears to be slowing slightly in the US the flexibility of their economic system is demonstrated by these results.

### Australian Company & Economic Reports

**Exports Surge:** Prices paid for exports jumped sharply in the second quarter, highlighting the impact that booming commodity receipts will have in turbo-charging the economy through coming years, and increasing the heat on the Reserve Bank of Australia to raise interest rates further. Merchandise exports surged 16.1% in the second quarter, easily outstripping a 1.9% rise in imports, the Australian Bureau of Statistics said. The data produced a net 13.9% increase in the terms of trade, representing a huge income stream. Australia's terms of trade are quickly closing in on the 50-year highs last seen just before the global financial meltdown in 2008. Strong prices for the major exports of coal, iron ore, gold and natural gas drove the increase. The rise in the export index was the largest quarterly move on record. The data showed China now accounts for 23% of exports and 17% of imports.

**National Australia Bank (NAB) and AXA Asia Pacific (AXA):** NAB Deputy Chief Executive Michael Ullmer said the bank is confident it can remedy the concerns the competition regulator has raised with its \$13.29bn bid for AXA AP. AXA and its French parent AXA SA have given NAB until Aug 31 to satisfy concerns raised by the Australian Competition and Consumer Commission over the bid. NAB advanced 61 cents (2.57%) to \$24.37. AXA rose 11 cents (2.06%) to \$5.46.

**Woodside Petroleum (WPL)** appeared to shy away from an end-of-2010 final investment decision target for an expansion of its \$13bn Pluto liquefied natural gas project, indicating the company may take longer than expected to secure enough gas to underpin the important development. The company also reported a surprisingly strong 48% increase in second quarter revenue to US\$1.07bn from US\$728m in the previous year, partly on a higher oil price. LNG revenue from the North West Shelf project more than doubled to \$376.2m from \$150.9m and included revenue from the settlement of some LNG price negotiations, Woodside said. Quarterly production fell 10% to 17.5m barrels of oil equivalent, as expected, and Woodside maintained its annual production guidance of 70m-75m BOE.

Woodside also said that a decision on the Pluto expansion will be made "contingent on identification of economically viable gas resources either through exploration volumes and/or other resource owners". The first train at Pluto is 91%

complete and remains within its guidance of shipping first LNG by the end of March 2011. WPL rose 92 cents (2.24%) to \$41.92.

**MAp Group (MAP)** said that underlying earnings at Sydney Airport, its key asset in which it holds a 74% interest, rose by around 13% for the third straight quarter, underpinned by continued recovery in airline traffic. The airport's earnings before interest, tax, depreciation and amortisation for the fiscal second quarter ended June 30 rose to \$180.2m from \$160m a year before, as revenue growth of 12% outpaced an 8.6% increase in operating expenses. EBITDA at Sydney for the first half of the year also rose 13%, to \$367.2m, outperforming solid traffic growth of 9.4%. The increase was partly driven by double-digit growth in domestic capacity and materially higher load factors on international routes, MAp Chief Executive Kerrie Mather said. MAP improved 8 cents (2.8%) to \$2.94.

**Sonic Healthcare (SHL)** said that its US operations achieved organic revenue growth of 3.6% in the fiscal second half ended June 30 and organic volume growth of 1.4%. Sonic said its growth rates in the US compared favourably with those of its competitors, despite being affected by adverse winter weather conditions. The company reaffirmed its full year guidance of a net profit ranging from \$290m to \$295m. SHL firmed 13 cents (1.31%) to \$10.07.

**DUET Group (DUE)** has received indicative bids for its 29% stake in US utility Duquesne Light from a number of infrastructure funds, a newspaper has reported. The report said the door is almost closed on indicative bids and that Singapore's GIC and Cheung Kong Infrastructure Holdings are making an offer, alongside British Columbia Investment Management. Goldman Sachs Infrastructure Partners, Morgan Stanley Infrastructure Partners and Japan's Marubeni are also said to be keen. Indicative bids have come in around the \$400m level, the report said. DUE improved 1 cent (0.59%) to \$1.70.

### International Market Report

US stocks jumped on Friday as investors moved past the results of European bank stress tests to focus on better-than-expected earnings from Verizon Communications and American Express as well as a dividend boost from General Electric.

The gains pushed the Standard & Poor's 500 to close above the psychologically important 1,100 level for the first time this month. They also helped the Nasdaq Composite erase its losses for the year.

The Dow Jones Industrial Average climbed 102.32 points (0.99%) to 10,424.62, its highest close since June 21. The measure climbed 3.24% last week and is up 6.66% for the month. With one week remaining in July, the Dow is on pace for its best month since July 2009. The measure is also close to wiping out its losses for the year, off 0.03% for the year to date.

Leading the Dow's gains, Verizon jumped 3.8% after the telecommunications giant's earnings excluding charges beat analysts' forecasts. American Express rose 3.7%, as the credit-card company's second-quarter profit nearly tripled, beating analysts' estimates.

General Electric advanced 3.3% after the conglomerate raised its quarterly dividend by 20%. The move represented GE's first dividend increase since its historic slashing more than a year ago. The company also announced it will restart stock buybacks this quarter after nearly two years.

However, McDonald's dropped 2.1% despite a 12% rise in its second-quarter earnings as the fast-food giant continued to see sales and traffic growth, with global same-store growth of 4.8%. Investors grew jittery after Chief Operating Officer Don Thompson warned, "We all look forward to better economic times, but we're just not seeing it yet."

The Nasdaq Composite gained 23.58 (1.05%) to 2,269.47. It is now up 0.01% for the year to date.

The Standard & Poor's 500 index added 8.99 (0.82%) to 1,102.66, the measure's first close above 1,100 since June 21. The measure is up 6.98% for the month but off 1.12% for the year.

Results from stress tests of European banks showed that of the 91 banks tested, just seven were in need of additional capital. Stocks initially wavered after the report as investors questioned whether the tests provided a complete enough picture of the European banking system given that only the banks' tradable assets were evaluated.

However, the market ultimately rose in the aftermath of the results, as investors were pleased to put the tests behind them and move on.

Amazon.com dropped 1% after the Internet retail giant's second-quarter earnings jumped 46%, but its bottom line came in short of analysts' expectations. Increased spending on infrastructure and marketing for its Kindle e-reader cut into the company's results.

Ford Motor climbed 5.2% with the car maker reporting a 13% increase in second-quarter earnings, beating analysts' estimates as the company was able to sell more vehicles at higher prices thanks to new models and consumers upgrading their purchases with high-tech features. Executives also said they expect 2011 results to outpace 2010.

For Australian ADRs listed on the NYSE, **BHP Billiton** increased 1.09%, **Rio Tinto Plc** rose 2.65%, **Telstra Corporation** dropped 0.97% and **Westpac** increased 1.87%.

European shares ended the day and the week with gains on Friday, taking media reports of some stress test details for banks in their stride.

The Stoxx Europe 600 index rose 0.6% to 255.97, up for the fourth straight session. It added 3.2% over the week.

Banks gained last week but ended broadly flat on Friday, with Commerzbank shares up 2% and Credit Agricole down 1.9%.

Reports said that stress tests conducted on 91 European banks examined sovereign-debt losses only on bonds traded rather than those held to maturity, it was reported on Friday afternoon. The report cited a document that specifies haircuts are applied only to trading book portfolios "as no default assumption was considered." Investors are hoping that the tests of bank capital levels will provide reassurance about balance-sheet health and ease financing worries.

Of the major regional benchmarks, the French CAC-40 index ended up 0.2% at 3,607.05, the German DAX index advanced 0.4% to 6,166.34 and the UK FTSE 100 index ended flat at 5,312.62.

Positive news flow on the European economy continued on Friday after better-than-expected readings on German Ifo and UK GDP.

Adidas shares were up 2.2% after the German sportswear maker released preliminary data for its first-half performance, which it said was materially above market expectations. Revenue rose 19% to EUR2.9bn in the second quarter, while net income reached EUR26m, up from EUR9m last year.

On the FTSE 100, Rio Tinto improved 0.63% pence and BHP Billiton remained unchanged.

A spike on Wall Street drove Asian markets higher on Friday, lifting Chinese shares for a fifth straight session and triggering a rebound in Japanese stocks that more than erased losses suffered earlier this week.

Japan's Nikkei Stock Average rose 2.3% after a five-session losing streak, the Shanghai Composite climbed 0.4% and Hong Kong's Hang Seng Index advanced 1.1%.

Base metals on the London Metal Exchange ended mixed but retained most of the gains made in the week's rally. Aluminium remained unchanged at \$2,035 while copper rose \$60 (0.86%) to \$7,035 and nickel firmed \$200 (0.99%) to \$20,425. Zinc fell \$5 (0.26%) to \$1,920 and lead added \$50 (2.60%) to \$1,975. Comex copper was last quoted at 318.50 US cents per pound.

Gold futures extended slight losses and industrial commodities fluctuated in a narrow range after regulators affirmed the health of most European banks. Spot gold was last quoted at \$1,188.90. Comex gold futures shed \$7.80 (0.65%) to \$1,187.80. Spot silver was last quoted at \$18.08.

Crude settled slightly down in light of waning concerns about a tropical storm approaching the Gulf of Mexico and as investors evaluated the results from stress tests on European banks. West Texas Intermediate was last quoted at US\$78.73 per barrel.

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