

27 July 2010

STOCKS TIPPED TO INCREASE AS US STOCKS CLIMB

Index	Index Level	Change (%)	Stocks	Price (\$)	Change (%)	Price rises	Price (\$)	Change (%)
All Ordinaries	4504	0.65	ANZ	22.73	1.43	WES	30.08	3.23
ASX S&P200	4486	0.62	CBA	51.49	0.49	ABP	0.42	2.44
SPI Futures	4502	0.58	NAB	24.77	1.64	PTM	5.19	2.17
Dow Jones (US)	10525	0.97	WBC	23.15	1.85	WBC	23.15	1.85
FTSE (UK)	5351	0.72	MQG	39.74	0.79	HHY	1.22	1.67
Shanghai(China)	2589	0.65	BHP	39.82	0.35	Price falls	Price (\$)	Change (%)
Nikkei 225 (Jap)	9504	0.77	RIO	70.25	0.56	QBE	16.97	-5.56
Hang Seng (HK)	20840	0.12	WPL	42.13	0.50	HVN	3.54	-3.01
AUS/USD	0.9018	0.70	WOW	25.83	0.62	FGL	5.83	-2.35
Gold (\$US)	1183.10	-0.40	WES	30.08	3.23	GPT	2.91	-2.02
Oil (\$US)	78.77	-0.25	HVN	3.54	-3.01	AGK	14.67	-1.61

Market Summary

Yesterday's Australian trading saw an overall positive trading day on the back of sales numbers from Wesfarmers and a rise in US markets. Last night, European markets pushed higher as bank stress test results were better than expected while US markets pushed higher as housing data was better than expected. Today we can expect a better session in line with world markets. The SPI Futures are 26 points higher.

Long View

Retailers have delivered their full year sales reports giving a view as to how their net profit might be for the period. Wesfarmers delivered a solid gain for the period but said its market share remained flat. Harvey Norman said their sales for the year were slightly off. There has been minimal price inflation in retail space and the government stimulus was felt in the prior period which has contributed to the final sales results.

The market is continuing to focus on the poor top line growth, pushing share prices lower. The time to own retailers is when there is some nervousness about sales growth and the sector looks at its worst. Woolworths continues to streamline its business and can choose to allocate this to customers as lower prices, increasing volumes or retaining gains for shareholders. Harvey Norman's unique franchise model insulates the store network from difficult times giving support to franchisees in bad times and charging more in the good times. There is some selective value in the retail space.

Australian Company & Economic Reports

Wesfarmers (WES): Total Coles sales rose 5.5% from a year ago in the fourth quarter to \$7.45bn as the turnaround of the businesses it acquired in late 2007 is starting to show signs of paying off. Sales in Coles' food and liquor, excluding convenience store sales, rose 4.2% in the quarter ending June 27 while comparable store sales rose 4.2%. In other divisions, Target sales fell 4.4% to \$872m in the quarter ending June 26 while Kmart sales rose 1.1% to \$914m in the quarter ending June 27. The fourth quarter was a difficult one for retailers, particularly in the discretionary space, because the year-ago comparable period was bolstered by government stimulus. Comparable store sales fell 6.2% at Target and rose 0.1% at Kmart. Bunnings experienced a 6.9% increase in sales from a year ago to \$1.5bn in the quarter ending June 30 while store-on-store cash sales growth was 2.3%. WES advanced 94 cents (3.23%) to \$30.08.

QBE Insurance (QBE) both surprised and disappointed the market, effectively pre-announcing that its first half results next month will see net profit fall about 40% with a key insurance measure to fall short of guidance given just six weeks ago. QBE said its insurance profit margin for the six months to June 30 is set to fall to 15.7% from 17.5% last year. On June 16, the group had said it expected this pre-tax measure of the profitability of its insurance operations, which incorporates investment income from its technical reserves, to be at the lower end of its full-year guidance of 16%-18%. Chief Executive Frank O'Halloran said while the first half insurance margin is "slightly below our target range" after lower interest yields and a record level of catastrophe claims, the company still expects to "outperform a majority of our peers" with a full year insurance profit margin of 16%-18%. QBE also said that

beginning with its first half results on Aug. 19, it will now report in US dollars instead of Australian dollars as over half of its gross written premiums are now written in that currency.

First half net profit is expected to fall by around 40% after being hurt by higher investment losses, both realised and unrealised, across its shareholder funds, and a number of unrepeated one-off gains relating to foreign exchange and debt repurchases that boosted first half earnings to \$1.02bn last year. Among other key first half measures, QBE said it expects net earned premiums after the costs of taking out reinsurance cover, or NEP, to rise by 19% to US\$5.2bn, with insurance profits to rise by just 7% to US\$820m. Its combined operating ratio, which measures its claims and underwriting expenses as a percentage of NEP, is set to remain below the key 90% level, at 89.7%, despite rising from 89.3% last year. QBE fell \$1.00 (5.56%) to \$16.97.

Harvey Norman (HVN): Total fiscal fourth-quarter sales from outlets in Australia were down 4% on the year while like-for-like sales were down 3.4%. The group said full-year sales across Australia, New Zealand, Slovenia and Ireland, but excluding Singapore, totalled \$6.08bn for the fiscal year ended June 30, up 0.8% from a year before. Like-for-like full-year sales rose 0.2%. HVN weakened 11 cents (3.01%) to \$3.54.

Leighton Holdings (LEI) Asian subsidiary has won a five-year contract worth \$172m to provide mining services at the Martabe gold mine in Indonesia. Leighton Asia will provide services including mine haul road construction, topsoil removal, drill and blast, mining of waste and infrastructure construction at the mine in north Sumatra. The first equipment was due on site in early August, with the project bringing Leighton Asia's work in hand to more than \$7bn. LEI rose 10 cents (0.34%) to \$29.76.

Australian Foundation Investment Company (AFI) said net profit for the fiscal year ending June 30 was \$183.6m, down 11.9% from \$208.2m in the prior year. AFI said the market's performance was set to be influenced by strong growth in China and Australia's strong fiscal position, sound employment levels and expectations of ongoing capital spending. Revenue for the year was \$194.9m, down 15.5% from \$230.7m last year, and AFI said it will pay a final dividend of 13 cents a share, in line with the prior year. AFI improved 1 cent (0.21%) to \$4.79.

International Market Report

US stocks climbed on Monday following a rosy forecast from FedEx and as a bigger-than-expected increase in new-home sales boosted companies connected to the housing sector including Home Depot and PulteGroup.

The gains helped push the Dow Jones Industrial Average back into positive territory for the year. The measure rose 100.81 points (0.97%) to 10,525.43, its highest close since May 17. It is now up 0.93% for the year to date.

Home Depot was among the Dow's top performers with a rise of 2.6%. The gain followed the release of data showing home buying surged in June following a May plunge caused by the end of a government tax credit. Investors were also encouraged by a drop in inventories, although May new-home sales were revised lower and the June sales level was still the lowest on record since 1963.

Among the Dow's other gainers, Pfizer climbed 3%, after Spanish pharmaceutical company Almirall SA said it reached an agreement with Pfizer to distribute the US company's new osteoporosis drug, Conbriza, in Spain.

DuPont rose 1.7%, ahead of the chemicals giant's quarterly report due out on Tuesday.

Wal-Mart Stores was the only Dow component to end the session in the red. Shares of the discount retailing giant fell 1.1%, following the resignation of its US apparel chief marking the third departure at its largest division in less than a month.

The Nasdaq Composite added 26.96 (1.19%) to 2,296.43. The Standard & Poor's 500 index climbed 12.35 (1.12%) to 1,115.01.

All of the S&P 500's sectors climbed, led by industrials, which got a boost from FedEx. The shipping giant raised its quarterly and full-year financial forecasts, citing particularly strong international express shipments and the tailwind of a "continued moderate" economic recovery. FedEx jumped 5.6%.

For Australian ADRs listed on the NYSE, **BHP Billiton** rose 0.33%, **Rio Tinto Plc** firmed 0.04%, **Telstra Corporation** advanced 1.32% and **Westpac** improved 2.99%.

In economic news, new home sales rose 23.6% to a seasonally adjusted annual rate of 330,000 in June after plunging in May due to the end of a government tax credit. Economists were expecting sales to climb by 3.7% to 311,000.

European stocks rose on Monday, led higher by the banking sector after most lenders on the continent passed the eagerly awaited stress tests.

The Stoxx Europe 600 index ended up 0.5% at 257.12 after gaining 3.2% over the past four sessions.

Financials put in a strong performance. In France, shares of Societe Generale surged 5.2% and those of Credit Agricole gained 3.1%. Shares of Barclays rose 4.5% and ING Groep ended up 3.8%. The stress test results were released after the close on Friday and revealed that only seven out of 91 banks had failed an adverse test scenario.

Germany's blue-chip DAX index rose 0.5% to 6,194.21, led higher by shares of Commerzbank AG, which gained 2.3%.

Shares of Deutsche Bank reversed early losses to end up 1%. Germany's biggest bank was among a few banks that didn't provide all the figures analysts had sought. The bank reports second-quarter results on Tuesday.

Of the other regional benchmarks, the French CAC-40 index advanced 0.8% to 3,636.18 and the UK FTSE 100 index rose 0.7% to 5,351.12.

Shares of oil giant BP rallied 4.6% in London. The firm, responding to weekend reports about the possible departure of Chief Executive Tony Hayward and the charge for the costs of the Gulf of Mexico oil spill, said on Monday that no final decision has been made on either matter. The company said its board will meet on Monday evening and that "any decisions will be announced as appropriate." BP reports second-quarter results on Tuesday.

On the FTSE 100, **Rio Tinto** climbed 0.43% and **BHP Billiton** increased 0.2%.

Most Asian markets advanced on Monday as investors reacted with relief to the results of the European bank stress tests released on Friday, although the gains were modest as doubts remained over the health of the lenders there. Japan's Nikkei Stock Average advanced 0.8%, China's Shanghai Composite gained 0.7% and Hong Kong's Hang Seng Index gained 0.1%.

Base metals continued to extend their gains, lifted by strong fundamentals and better-than-expected US home sales data. Aluminium rose \$20 (0.98%) to \$2,055 while copper firmed \$95 (1.35%) to \$7,130 and nickel added \$335 (1.64%) to \$20,760. Zinc strengthened \$30 (1.56%) to \$1,950 and lead gained \$40 (2.03%) to \$2,015. Comex copper was last quoted at 322.75 US cents per pound.

Gold futures fell slightly as stronger US housing data and a brighter corporate outlook followed expected European bank stress test results last week to sap the fear factor that recently drove the yellow metal to record highs. Spot gold was last quoted at \$1,182.80. Comex gold futures weakened \$0.80 (0.07%) to \$1,187.00. Spot silver was last quoted at \$18.14.

Crude wavered between gains and losses settling flat as economic data and equities markets left traders with a hazy picture of oil demand. West Texas Intermediate was last quoted at US\$78.98 per barrel.

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