Prescott Securities
STOCKBROKERS & FINANCIAL ADVISERS

Morning Note

30 July 2010

SLIGHT FALL PREDICTED AS US FALLS

Index	Index Level	Change (%)	Stocks	Price ($)	Change (%)	Price rises	Price ($)	Change (%)
All Ordinaries	4536	-0.13	ANZ	23.19	-0.17	CEU	0.41	2.53
ASX S&P200	4524	-0.13	CBA	53.01	0.78	CYA	0.83	1.85
SPI Futures	4477	-0.37	NAB	25.33	-0.04	GMI	1.12	1.36
Dow Jones (US)	10467	-0.29	WBC	24.25	0.41	LEI	29.74	1.05
FTSE (UK)	5314	-0.11	MQG	38.39	-1.21	CBA	53.01	0.78
Shanghai(China)	2648	0.55	BHP	40.46	0.65	Price falls	Price ($)	Change (%)
Nikkei 225 (Jap)	9696	-0.59	RIO	71.50	0.65	MGR	1.33	-2.93
Hang Seng (HK)	21094	0.01	WPL	41.72	-1.04	ENV	0.51	-2.88
AUS/USD	0.9015	0.90	WOW	25.56	-0.93	SGP	3.79	-2.82
Gold ($US)	1168.40	0.69	WES	31.23	0.32	CPA	0.94	-2.60
Oil ($US)	78.01	1.54	HVN	3.59	0.56	CFX	1.89	-2.33

Market Summary

The Australian market continued to trade in line with world markets on Thursday, registering a small fall. Overnight European shares ended lower on negative sentiment on Wall Street. US stocks fell on Thursday as weaker-than-expected quarterly revenues and forecasts from Kellogg and Colgate-Palmolive weighed, on other consumer staples companies. The number of US workers filing new claims for unemployment benefits fell slightly last week following a big rise the previous period, signalling little improvement in the job market.

Long View

There continues to be a trend of avoiding any positive economic and financial news. Traders continue to worry about the possibility of economic growth slipping back into recession around the world and ignored mostly positive international earnings reports.

The Australia reporting season is due and will give a clearer picture of the Australian economic environment. The Australian share market has underperformed the rest of the world despite having a much better economic environment. While this is a poor outcome for already invested portfolios it does present a chance to put money to work in companies at lower prices.

As if to demonstrate the effect of pessimism on the markets, Macquarie Group delivered a subdued first quarter update. Macquarie reported June quarter earnings slightly ahead of the previous June quarter. In addition Macquarie said it expects less one-off items in its result and the current strength of their balance sheet, reinforced by the high cash levels, will continue to impact return characteristics. Macquarie said that it is well placed to benefit due to its expertise in major markets growing market share and balance sheet position. The expectation for the full year 2011 result continues to be impacted by the conservative approach to funding. Macquarie relies on confidence in markets to generate its earnings, but should confidence improve Macquarie is well placed. In the meantime Macquarie is conservatively positioned and using strategic acquisitions to increase its footprint.

Australian Company & Economic Reports

Coca-Cola Amatil (CCL) Chief Executive Terry Davis said the present focus in the beer business is on organic growth, indicating the group isn't currently interested in buying Foster's beer operations. "With asset values as high as they are today, you'd say it's very difficult," to justify an acquisition, he said. John Murphy, managing director of licensed alcohol at Coca-Cola, said the group plans to launch new beers with its new brewery. Davis expects the premium beer market to continue to grow, despite an overall slowdown in consumer spending in the first half of 2010. CCL lost 2 cents (0.17%) to $11.63.

Goodman Group (GMG) and ING Industrial Fund (IIF): Goodman said it was interested in becoming the manager of the ING Industrial Fund. Goodman, which already has a 4.4% stake in IIF, said that such an arrangement would be a prudent expansion of its funds management business. It said there had been no detailed discussions on the idea and there is no certainty that a transaction will take place. GMG fell 1 cent (1.55%) to $0.64. IIF fell 1 cent (1.11%) to $0.45.

Nufarm (NUF) said US and Canadian regulators have reached final agreement on measures to ensure appropriate competition following the company's purchase in March 2008 of AH Marks Holdings. The measures involved the sale and/or transfer of some product registrations and other assets to other companies from Nufarm and the restructuring of some supply agreements, Nufarm said. These measures were the subject of negotiation with regulators over the past 18 months and all measures are already in place. The agreements don't have a material impact on the anticipated value that Nufarm expects from its buy of AH Marks, the company said. NUF dipped 2 cents (0.53%) to $3.76.

Centro Properties (CNP) said it has refinanced around US$2.7bn of the US$3.2bn debt in its US joint venture and was confident of rolling over the balance "in due course". Centro also said it has made no decision about what form a planned restructure will take and that any changes were unlikely to be completed until the end of 2011. The company said it was looking for a strategic partner that could help grow its syndicate property funds management program. CNP added 1 cent (5%) to $0.21.

International Market Report

The Dow Jones Industrial Average declined 30.72 points (0.29%) to 10,467.16. The measure was weighed down by its consumer-staples components, with Kraft Foods slipping 2.1%, and Procter & Gamble declining 1.6%. The declines followed disappointing earnings reports from other consumer-staples companies including Kellogg and Colgate-Palmolive, which are not Dow components.

Kellogg slid 6.9%, after the cereal maker's second-quarter profit fell 15% on weakness in cereal sales in the US and UK and impacts from a recent recall. Sales fell short of analysts' expectations and the company cut its estimate for 2010 per-share growth. Colgate-Palmolive fell 6.8%. The consumer-products company's second-quarter earnings rose 7.3% on improving sales and volume, but its sales missed analysts' expectations and the company warned that the currency devaluation in Venezuela will hurt 2010 earnings more than previously thought.

Merck was the Dow's best performer, up 0.9%, and Chevron climbed 0.6%, as investors traded optimistically ahead of the companies' quarterly earnings reports due on Friday morning.

The Nasdaq Composite dropped 12.87 (0.57%) to 2,251.69. The Standard & Poor's 500 index lost 4.60 (0.42%) to 1,101.53.

The declines followed fluctuations in and out of the red throughout Thursday's session as investors continued to struggle with the mixed messages delivered between corporate earnings and economic data.

Among Thursday's economic reports, the number of US workers filing new claims for unemployment benefits fell slightly last week, but that followed a big rise the previous period, signalling little improvement in the job market. Meanwhile, manufacturing activity in the Federal Reserve Bank of Kansas City's district rebounded moderately in July, but hiring expectations continued to weaken.

Visa declined 4.3% after the credit-card company's fiscal third-quarter profit dropped 1.8% following a prior-year gain, masking a 14% jump in spending on its cards.

For Australian ADRs listed on the NYSE, **BHP Billiton** increased 0.44%, **Rio Tinto Plc** dipped 0.02%, **Telstra Corporation** firmed 1.39% and **Westpac** strengthened 2.29%.

In economic news, the number of US workers filing new claims for unemployment benefits fell slightly in the week to July 24, but that follows a big rise the previous period, signalling little improvement in the job market.

The Stoxx Europe 600 index fell 0.4% to 256.26, reversing earlier gains. The index had earlier hit an intraday high of 259.57.

Germany's DAX index fell 0.7% to 6,134.70, led lower by shares of Deutsche Lufthansa, which dropped 4.5%. The airline reported a first-half net loss of EUR104m, as a pilots' strike and the airspace lockdown after the volcano eruption in Iceland took their toll.

Shares of industrial conglomerate Siemens AG fell 3.2%, even as it reported strong profit growth and a surge in orders. Volkswagen shares rose 2.6%. The car giant said its first-half profit surged on strong demand for its models, cost cutting and favourable exchange-rate moves.

In France, the CAC-40 index fell 0.5% to 3,651.91.
Shares of France Telecom shot up 5.5%. The firm's first-half net income climbed to EUR3.7bn from EUR2.6bn.

The UK FTSE 100 index edged down 0.1% to 5,313.95.

In the energy sector, Royal Dutch Shell said its second-quarter net profit rose 15% to $4.39bn as revenue jumped 42% to $90.57bn. Shares ended down 0.2%.

On the FTSE 100, **Rio Tinto** declined 0.96% and **BHP Billiton** slid 0.7%.

Asian stocks ended mixed on Thursday though optimism over the Chinese economy helped push Shanghai-listed shares higher.

Copper rallied to fresh 12-week highs on the London Metal Exchange, with demand boosted by firmer equities, a stronger euro and a general rebound in market confidence. Aluminium rose $25 (1.21%) to $2,095 while copper firmed $80 (1.11%) to $7,255 and nickel added $250 (1.22%) to $20,700. Zinc strengthened $30 (1.53%) to $1,985 and lead gained $25 (1.24%) to $2,040. Comex copper was last quoted at 327.75 US cents per pound.

Gold futures bounced from near three-month lows, but only slightly as investors continued to lighten their holdings of the metal, which has been losing its appeal as a refuge amid calming markets. Spot gold was last quoted at $1,166.60. Comex gold futures climbed $8.80 (0.76%) to $1,171.20. Spot silver was last quoted at $17.71.

Crude-oil and natural-gas jumped on a weaker US dollar and a general optimism about the outlook for commodities that held even as stocks turned lower. West Texas Intermediate was last quoted at US$78.36 per barrel.

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