WHK

**WHK ECONOMIC OUTLOOK for 25 JUNE 2010**



## Market Summary

The Australian market yesterday reacted to the change of Prime Minister, hoping for changes in the proposed Resources Super Profit Tax and a more certain investment environment. The initial market reaction was positive then drifted to end lower for the session. Overnight the US markets fell as retailers and banks dropped on concerns that high unemployment and weak consumer spending would constrain any economic rebound. We can expect a negative session in Australia today with the SPI futures down 59 points.

## Australian Company & Economic Reports

**Business Confidence down Westpac:** Business confidence edged down in the second quarter of 2010 compared with the previous quarter, a private sector survey showed. The Westpac Australian Chamber of Commerce & Industry expected composite index fell to 56.6 from 57 in the first quarter. In the prior survey, expectations had been for a reading of 64.7 for the second quarter. Westpac attributed the shortfall to slower domestic demand growth in the first quarter gross domestic product report, a series of rate hikes from the Reserve Bank of Australia, and elevated concerns on the global outlook amidst the European debt crisis.

**BHP Billiton (BHP) and Rio Tinto (RIO):** The Japan Fair Trade Commission has begun its antitrust review of a plan by BHP and Rio to merge their Australian iron ore mining operations, commission Secretary-General Takahide Matsuyama said. The commission will decide by July 16 whether to allow the two miners to proceed with the combination, or to conduct a second screening. BHP firmed 51 cents (1.3%) to $39.65. RIO rose $1.19 (1.69%) to $71.73.

**AGL Energy (AGK)** plans to fast track its Macarthur wind farm project following changes to the Renewable Energy Target scheme approved by the Senate on Wednesday. The government's changes provide greater investment certainty for the renewable industry, AGL said. The RET is designed to ensure 20% of electricity comes from renewable energy sources by 2020. AGK remained unchanged at $14.71.

## International Market Report

US stocks skidded lower on Thursday as uncertainty over the final shape of the financial-overhaul bill weighed on the major banks and disappointing earnings from Bed Bath & Beyond sent a wide swath of retail stocks tumbling. Falling for a fourth straight session, the Standard & Poor's 500-share index posted its longest losing streak in seven weeks, since the four-day period that ended May 7. The S&P 500 fell 18.35 points (1.68%) to 1,073.69. The Dow Jones Industrial Average dropped 145.64 (1.41%) to 10,152.8. The Nasdaq Composite slid 36.81 (1.63%) to 2,217.42. The consumer-discretionary sector took the biggest hit, stung by weak earnings and outlooks from several retail and restaurant companies. Other retailers tumbled as investors worried that consumers' spending power may be waning. Financial stocks were also weak as lawmakers worked to finalise financial-overhaul legislation that may tighten industry regulations more than investors initially expected. Among the proposals still being negotiated, one would allow the government to levy a fee on banks for any funds that aren't repaid to the Treasury's bank rescue program. Lawmakers also agreed to set new capital standards for banks, but rejected a provision that could force banks to pay for the wind-down of mortgage finance giants Fannie Mae and Freddie Mac.

In economic news, in a sign that improvement in the job market could be on the horizon, the number of US workers filing new claims for unemployment benefits dropped in the week ending June 19 by 19,000 to 457,000, less than the 465,000 economists were expecting. Demand for US durable goods was pushed down by civilian aircraft in May, casting a shadow on an otherwise positive report. Outside of the transportation sector, orders for all other durables rose by 0.9%.

European shares saw their declines accelerate at the close of trading on Thursday after the US Federal Reserve highlighted the region's debt woes as it provided a less upbeat outlook on growth. The Stoxx Europe 600 index fell 1.8% to 249.78 after losing 1.5% over the last two trading sessions. Federal Reserve policymakers said that the European debt crisis was negatively impacting the US recovery as they kept interest rates on hold at ultra-low levels and signalled rates are likely to say low for some time. In a statement at the end of its two-day meeting, policy makers downgraded their outlook for the US economy, saying that the recovery was "proceeding" - not strengthening, as they had said in April. European banks, which are big holders of European government debt declined on Thursday. The focus on Europe's debt woes put Greece back in the frame and the cost of insuring Greek sovereign debt against default hit a fresh record high on Thursday. Greek stocks were the worst performers by a long way, with the Greek ASE Composite Index down 3.7% at 1,469. Of the major regional equity markets, the French CAC-40 index fell 2.4% to 3,555.36, the German DAX index lost 1.4% to 6,115 and the UK FTSE 100 index declined 1.5% to 5,100.23. Miners were also lower in Europe as investors worried about economic growth and also tried to assess the implications of a change of leadership in Australia on a proposed super-tax for the sector.

Elsewhere in the retail sector, Tesco shares rose 0.9%. Warren Buffett, arguably the world's most famous investor, went shopping for Tesco shares earlier this week, adding to his stake in Britain's dominant supermarket retailer. A disclosure released to the London Stock Exchange showed Buffett's Berkshire Hathaway added nearly 2m shares in Tesco to take the group's stake past the 3% threshold.

Asian stock markets ended mostly lower, pressured by the Federal Reserve's downgrade of its outlook on the US economy. Japan's Nikkei Stock Average was flat, The Shanghai Composite index fell 0.1% and Hong Kong's Hang Seng index shed 0.6%.

Base metals on the London Metal Exchange ended higher on better-than-expected US economic data and stronger consumer demand. Aluminium rose $30 (1.55%) to $1,970 while copper firmed $140 (2.14%) to $6,690 and nickel added $290 (1.50%) to $19,600. Zinc strengthened $55 (3.01%) to $1,880 and lead gained $30 (1.66%) to $1,840. Comex copper was last quoted at 300.75 US cents per pound. Gold futures gained as stock-market declines sent investors looking for a safe haven, and a weaker US dollar prompted some to buy back previously sold positions. Spot gold was last quoted at $1,242.50. Comex gold futures climbed $11.10 (0.90%) to $1,245.90. Spot silver was last quoted at $18.65. Crude oil inched higher, supported by a stronger euro but constrained by ongoing worries about tepid demand. West Texas Intermediate was last quoted at US$76.16 per barrel.

Please call Chris DiMattina or Damien Smith on 1300 135 543 if you would like to discuss any of the above.

Disclaimer:



**Please note: from June 28 WHK new address will be Level 17, 181 William Street,**