



WHK MARKET UPDATE for 8 JULY 2010

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Market Summary

Wednesday's Australian trade saw the market open flat and then fell through the day despite positive leads from resources and the US market. Overnight the Dow Jones rallied 274 points with the market strengthening throughout the session. The Dow was pushed higher by financial stocks and materials as fundamentals swung back into focus with the upcoming reporting season beginning to take the focus. Today on the Australian market we can expect a more positive session with the SPI futures indicating an 85 point rise.

Long View

The rise that occurred on the market overnight demonstrates just how quick markets can turn. While the volatility is difficult to contend with, it continues to provide investing opportunities where the market diverges from fundamentals. Should you have remained invested in quality companies that can ride out market volatility you will be well positioned. Should you be in cash you need to decide when to get back in the market. We continue to focus on purchasing quality companies at lower prices and while we cannot predict short term market moves we feel that there is selective value available in the market at the present time.

Australian Company & Economic Reports

Construction Activity Weakens: Construction activity contracted for the first time in four months in June, weighed down by tight credit conditions and subdued demand, according to a survey of the sector. The Australian Industry Group/Housing Industry Association Performance of Construction Index was at 46.4 in June, down 6.8 points from May, falling below the 50-point level indicating a contraction in activity for the first time since February. House building and apartment building activity experienced particularly weak conditions, with both sub-indexes indicating a contraction. Still, engineering construction was back in positive territory in June and commercial construction also strengthened.

National Australia Bank (NAB) said it continues to consider its options as it looks to secure approval from the competition regulator on its takeover bid for AXA Asia Pacific. The bank repeated its view that the acquisition is consistent with its strategic agenda to develop its wealth management business and improve shareholder returns. NAB dipped 31 cents (1.32%) to \$23.09.

Macquarie (MQG) has been linked to speculation of a new wave of forestry plantations swallowing up farming land in south-west Victoria, a newspaper has reported. Up to 5000 hectares near Hamilton are believed to be under offer for new forestry investment projects through Macquarie and other companies using schemes approved by the Tax Office. There is speculation some new plantations could be for carbon credit programs for international investors. MQG fell 81 cents (2.18%) to \$36.31.

Lend Lease (LLC) is being touted as a potential buyer for the Valemus business, following the decision to withdraw the planned \$1.3bn float by the German parent Bilfinger Berger. Lend Lease's executives - some of whom left for a tour of the overseas businesses yesterday - have said they would look at the Valemus assets, but at a price lower than what had been suggested in the public float. Although Valemus executives said a trade sale was unlikely at this stage, Lend Lease chief executive Steve McCann said in May that the Valemus infrastructure and construction assets would be a good fit for his operations. Lend Lease has the cash, but some of the funds would be used for when it kicks off the first stage of the billion-dollar-plus Barangaroo development in Sydney Harbour. LLC fell 13 cents (1.75%) to \$7.30.

Sigma Pharmaceuticals (SIP) said that Aspen Pharmacare has made a formal takeover bid but lowered its offer to 55 cents a share. The revised bid, down from 60 cents a share, also came with a list of more than 10 conditions. Sigma said Aspen was continuing due diligence following the offer, which reduces the suitor's valuation of the company to \$648m from \$707m. "The Sigma board is considering the proposal and recommends that shareholders take no action at this stage," it said. Aspen's new bid came with a shopping list of conditions, including a conditional break fee, no material decline in Sigma's position and continuation of the company's existing major contracts and credit arrangements. It also demanded Sigma extend exclusive due diligence to Aug. 2 and agree not to seek out rival bids. SIP rose 6 cents (13.92%) to \$0.45.

International Market Report

US stocks rallied broadly on Wednesday in the third-biggest one-day gain of the year, pushing the Dow Jones Industrial Average back above the key 10,000 level. Financial stocks led the climb, boosted by a rosy earnings forecast from State Street and as details on euro-zone bank stress tests removed some uncertainty. The Dow climbed 274.66 points (2.82%) to 10,018.28. The measure is now up 2.5% for the month but still down 3.93% for the year. All 30 of the measure's components rose. The financial sector was boosted by a projection from money-manager State Street for second-quarter profit well above analysts' forecasts. State Street, which isn't a Dow component, leapt 9.9%. Also lifting financials, Europe's banking supervisor named the 91 banks that it will test for resilience to further market and credit risks and laid out the key features included in the tests. The banks are being tested individually but following a common set of criteria. The results will be made public July 23. Investors found it encouraging learning more of the details about the test, as uncertainty about it had been weighing on financial stocks in Europe as well as in the US. The Nasdaq Composite rose 65.59 (3.13%) to 2,159.47. The Standard & Poor's 500 index climbed 32.21 (3.13%) to 1,060.27. American depositary shares of BP rose 4%, after Chief Executive Tony Hayward met with Abu Dhabi's powerful Crown Prince Mohammed bin Zayed Al Nahyan during a visit to the oil-rich sheikdom, and said that he would be happy to see the city-state's sovereign wealth fund buy a stake of up to 10% in BP.

A rally in banking shares, powered by the hope that impending bank stress test results may not be as bad as feared, helped European stocks turn higher on Wednesday. The Stoxx Europe 600 index rose 1.4% to 246.06. Reports on Wednesday suggested the criteria used to measure European banks' health might be more generous than originally feared. Stress tests assume a 17% hit on the value of Greek government bonds they hold, according to two reports. Notable financial-sector gainers included lenders with significant exposure to so-called peripheral European

countries. As for the major regional benchmarks, the French CAC-40 index added 1.8% to 3,483.44, the German DAX index gained 0.9% to 5,992.86 and the UK's FTSE 100 index closed up 1% at 5,014.82.

Asian stocks largely declined after weak US data refuelled worries about the strength of the global economic recovery while technology shares across the region fell, unimpressed by Samsung Electronics' forecast of a record operating profit. Japan's Nikkei Stock Average fell 0.6%. China's Shanghai Composite Index ended 0.5% higher after enduring a choppy trading session, as gains in consumer and cement stocks offset broad declines in banks. Hong Kong's Hang Seng Index dropped 1.1%.

Base metals on the London Metal Exchange bounced back from early losses to end higher, tracking a recovery in the euro and gains in US equity markets. Aluminium rose \$15 (0.76%) to \$2,000 while copper firmed \$130 (1.98%) to \$6,700 and nickel added \$245 (1.29%) to \$19,170. Zinc strengthened \$20 (1.09%) to \$1,860 and lead gained \$25 (1.41%) to \$1,800. Comex copper was last quoted at 304.55 US cents per pound. Gold futures rose as the optimistic economic sentiment that boosted commodities and equities spread to precious metals. Spot gold was last quoted at \$1,202.20. Comex gold futures climbed \$3.80 (0.32%) to \$1,198.90. Spot silver was last quoted at \$18.01. Crude oil followed US equities higher, snapping a six-session streak of losses. West Texas Intermediate was last quoted at US\$74.07 per barrel.

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

Disclaimer:

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