



WHK MARKET UPDATE for 6 AUGUST 2010

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Market Summary

Yesterday's Australian trade saw a positive session as company earnings season began. Today we expect a flattish session but this could change as earnings reports influence sentiment. This morning the SPI Futures are 3 points higher. US stocks fell slightly on Thursday as investors traded cautiously ahead of the government's non-farm payrolls report due Friday morning. European shares ended mostly lower on Thursday, weighed down by downbeat US employment data, but Germany and France managed to eke out marginal gains. Earnings reports from European corporate giants, including Barclays PLC and Unilever, also largely disappointed investors. Asian shares ended mixed with China-focused real estate developers lower after Beijing recently ordered banks to conduct stress tests.

Long View

We rarely cover action from the Chicago Board of Trade but overnight soft commodity prices rallied as Russian Prime Minister Vladimir Putin signed an order to ban grain and flour exports due to the drought in Russia. Wheat rose to a 23 month price high as trading halts were implemented twice after it pushed through trading ranges. Clearly the increasing wheat price will be good for Australian farmers after much of south eastern Australia has recorded solid rainfall this year after years of drought. Should there be a bumper crop this year, the higher prices will likely add strongly to Australian GDP growth. Many economists would not have factored in an improvement in the farming sector to their GDP numbers. Ironically with such low employment numbers in Australia an improvement in the sector could see increased pressure on wages causing inflation and increasing interest rates but this is the flip side to strong economic growth. Unfortunately high prices are not locked in but the Russian announcement goes a long way to supporting grain prices for the season ahead. Such price rises often see speculators head to the market to join in the momentum which can be a self fulfilling prophecy in the short-term. This strategy works until it doesn't but when this actually occurs, no one has a crystal ball to tell. Hopefully for Australian farmers and the Australian economy the high prices in grains can continue until the current crops are harvested.

Australian Company & Economic Reports

Rio Tinto (RIO) said that first half net profit more than tripled from a year earlier to US\$5.84bn due to higher commodities prices and operational improvements. The strength of the rise in profit was also helped by an accounting change which caused the US\$2.45bn net profit recorded in its 2009 first half results to be restated to US\$1.62bn. The company said consolidated revenues rose 34% to US\$25.21bn in the six months ended June 30 from US\$18.85bn the previous year. The miner reinstated its interim dividend at 45 US cents per share. Tom Albanese, chief executive, said: "We have reaped the benefits of the cost reduction efforts implemented in 2009 and have been pushing our production hard to benefit from a strong pricing environment, leading to record first half cash flows." The company

reduced its net debt to US\$12bn from US\$39bn at the same time last year. RIO gained 17 cents (0.23%) to \$73.01.

ANZ (ANZ) said that OnePath will be the new name for its funds management and life insurance businesses in Australia and New Zealand to help support its growth aspirations in the wealth management sector. It said that after moving to full ownership of its joint ventures with ING in November, the wealth management businesses will be integrated with its online broking business E*Trade and the ANZ branded businesses in investment lending, financial planning and private banking. ANZ rose 7 cents (0.3%) to \$23.21.

National Australia Bank (NAB) and AXA Asia Pacific (AXA) said that it remains in discussions with the Australian Competition and Consumer Commission in relation to its proposed acquisition of AXA. The bank said it will advise the market of any material developments. Before the market opened today, AXA requested its shares be placed in a trading halt for up to two days. NAB rose 19 cents (0.76%) to \$25.19. AXA entered a trading halt.

Telstra (TLS) Hong Kong unit, CSL, is facing delivery challenges for Apple's iPhone 4 due to "overwhelmingly high demand," it said. The approximate lead time for iPhone delivery by CSL's 1010 and one2free outlets will be up to three weeks from the date of advance payment. CSL and two other Hong Kong mobile carriers, SmarTone Telecommunications and Hutchison Telecommunications Hong Kong, started selling the iPhone 4 on July 30. TLS fell 2 cents (0.6%) to \$3.29.

ASX (ASX) said the number of cash market trades that occurred on the Australian Securities Exchange in July rose 8% on-year to 10.8m. Total cash market traded value in July fell 4% to \$97.8bn. ASX advanced 26 cents (0.88%) to \$29.84.

Tabcorp (TAH) surprised the market by announcing it would spend another \$285m on the redevelopment of its Sydney-based Star City Casino, on the same day as it reported a 10% fall in full-year net profit. The company said it plans to increase its investment in Star City in order to add a new 3,000-seat Events Centre and international VIP facilities. The group already had to kick in an extra \$100m into the development project a year ago in order to expand the gaming floor and increase its night life offering. This time, management promised they wouldn't be paying any more than the \$960m - which includes a \$100m licensing fee - to complete the Star City expansion project. Tabcorp said its net profit was \$469.5m in the year to June 30, down 10% from \$521.7m a year ago. Normalised net profit was \$477.3m, down 3.8% on the year. Weakness in Queensland and Victoria weighed on the group's results. Some \$160m of the new spending on the Star City expansion is designed to attract more high-roller gamblers - including two private aircraft to fly in customers from across Asia. Chief Executive Elmer Funke Kupper described the high-roller investment as a "no brainer" for Tabcorp, estimating annual turnover in the VIP sector was \$50bn in Australia, with potential revenues of \$700m. Funke Kupper said Tabcorp used to have 30% of the VIP market but that had now declined to 15%-20%, a trend it was keen to reverse. The group's full-year normalised net revenue was \$4.23m, up 1.5%. TAH weakened 15 cents (2.17%) to \$6.76.

Intoll (ITO) said that it has extended talks with suitor Canada Pension Plan Investment Board (CPPIB) for another week as the parties try to agree on a proposal for Intoll directors to recommend to security holders. Intoll said that both parties have been "working constructively" since a three-week due diligence period was granted when CPPIB lodged a \$3.47bn indicative proposal on July 15. The company said it has agreed to extend the due diligence period for "approximately one week" to

"determine whether an acceptable transaction can be agreed and put to security holders". ITO fell 2 cents (1.35%) to \$1.46.

International Market Report

The Dow Jones Industrial Average declined 5.45 points (0.05%) to 10,674.98, although it is still up 2% so far this week ahead of the monthly employment data. The Nasdaq Composite shed 10.51 (0.46%) to 2,293.06. The Standard & Poor's 500 index lost 1.43 (0.13%) to 1,125.81, with its technology and financial sectors leading the drop. The declines followed an unexpected increase in weekly jobless claims that cooled investors' expectations for the government's monthly jobs report. Thursday's declines were limited by the consumer-discretionary sector, which was lifted by encouraging retail sales at Kohl's, Abercrombie & Fitch and Macy's although some other retailers disappointed.

In economic news, raising concerns about the labour market's recovery, initial unemployment claims rose by 19,000 to 479,000 in the week ended July 31. The last time claims were this high was the week of April 10. Economists were expecting filings to dip by 2,000 to 455,000.

The Stoxx Europe 600 index fell 0.3% to 261.48 points. Losses accelerated after US data showed that the number of people applying for initial unemployment benefits jumped. In London, the FTSE 100 index dropped 0.4% to 5,365.78. In the consumer goods sector, shares of Unilever declined 5.2% after it warned that the economic environment is challenging, even as it reported a 39% jump in second-quarter net profit. Shares of food producer Danone fell 2.1% in Paris. On the positive side, shares of Aviva surged 7.2% after the insurance group reported a forecast-beating 21% rise in first-half operating profit. In France, the CAC-40 index ended up 0.1% at 3,764.19, led higher by shares of publishing group Lagardere SCA, which rose 4.3%. The German DAX index edged up 0.04% to 6,333.58.

China's Shanghai Composite index fell 0.7%, Hong Kong's Hang Seng Index ended flat and Japan's Nikkei Stock Average was 1.7% higher.

Base metals on the London Metal Exchange took a tumble, closing lower after reports out of China regarding mortgage lending and bank stress tests, coupled with weak US data, weighed on prices. Aluminium fell \$20 (0.90%) to \$2,200 while copper weakened \$85 (1.14%) to \$7,400 and nickel rose \$10 (0.05%) to \$21,860. Zinc dropped \$15 (0.71%) to \$2,095 and lead shed \$35 (1.57%) to \$2,190. Comex copper was last quoted at 334.00 US cents per pound. Gold futures rose for a seventh consecutive day as weakness in other markets enhanced the demand for refuge assets. Spot gold was last quoted at \$1,194.65. Comex gold futures added \$3.40 (0.28%) to \$1,199.30. Spot silver was last quoted at \$18.31. Crude eased lower for a second day, as concerns about high US unemployment stalled the recent rally. West Texas Intermediate was last quoted at US\$82.01 per barrel.

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

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