



WHK MARKET UPDATE for 17 SEPTEMBER 2010

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Market Summary

Australian shares fell in line with Asian markets ignoring gains in the US in the previous session. Asian stock markets ended mostly lower with Chinese banks falling sharply on worries about a possible interest rate hike by the People's Bank of China. European stocks finished lower on Thursday after an unexpected drop in UK retail sales, while German industrial conglomerate Siemens gained after a bullish assessment from brokers. Technology companies boosted US blue-chip stocks to a narrow gain on Thursday, as confidence mounted that the economy would avoid a double-dip recession. In economic news, US unemployment benefit claims unexpectedly fell to their lowest level in two months, spurring hopes that a weak jobs market is improving, while a separate report shows there is some mild pipeline inflation pressures in the US economy. Australian trade can expect a positive session with the SPI Futures up 24 points and Asian futures mixed. Trading ex-divided today is Challenger Financial Services Group.

Australian Company & Economic Reports

Business Confidence Down: Business confidence fell in the third quarter of 2010 compared with the previous quarter, a private sector survey showed. The Westpac-Australian Chamber of Commerce and Industry's latest survey of industrial trends showed the expected composite index - a gauge of business confidence - slumped to 50.2, from 54.8 in the second quarter. The industrial trends actual composite index - a measure of actual business conditions - fell to 49.5 in the third quarter from 56.6.

Manufacturing Down: Manufacturing weakened in the September quarter against a backdrop of international economic uncertainty and a drawn-out federal election, the Westpac survey also indicated. The actual composite index fell 7.1 points to 49.5 in the September quarter. It was the lowest level in a year and below the 54.8 predicted in the June quarter survey. At near 50, the index implies a stalling in manufacturing expansion, after signalling above trend growth in the first half of the year. The expected composite index also fell 4.6 points to 50.2.

Myer (MYR) said that its full year net profit came in at \$67.2m, weighed down by costs associated with its November initial public offer. Excluding charges relating to its IPO, profit for the 53 weeks ended July 31 came in at \$163.5m, which it said was up from \$108.7m a year ago. It said that its proforma profit after tax was \$169m and the group forecast 5%-10% growth in profit for the new financial year. Earnings before interest and tax, before IPO costs, came

in at \$270.3m, at the top end of the group's \$265m-\$272m guidance range. The retailer said it would pay a final dividend of 11.5 cents a share. MYR dipped 1 cent (0.25%) to \$3.92.

Sigma Pharmaceuticals (SIP) said that it's likely to breach loan conditions with bankers after taking an up to \$270m charge from the \$900m fire sale of its pharmaceutical division to Aspen Pharmacare. While the news isn't good for Sigma, which needs to generate as much cash as it can to lighten its heavy debt burden, it isn't surprising, given asset divestments below book value must be written down. Sigma said a charge of between \$220m and \$270m in its fiscal first half is likely to trigger the net asset covenant under its syndicated banking facility, but it said it continues to work constructively with its lenders to secure relevant waivers. The negotiation of formal transaction documentation with Aspen is continuing. SIP fell 3 cents (5.1%) to \$0.47.

International Market Report

The Dow Jones Industrial Average closed up 22.10 points (0.21%) at 10,594.83. Technology stocks led the climb, as investors gained faith that the economic recovery is slowing but not headed toward a second slump. The Standard & Poor's 500-stock index slipped 0.41 (0.04%) to 1,124.66. The Nasdaq Composite edged up 1.93 (0.08%) to 2,303.25.

While all the benchmark indexes have surged this month, the Nasdaq has outpaced its peers. The measure has climbed 8.95% since the start of September as fears of a double-dip recession have relaxed. The Nasdaq has climbed for seven straight sessions. Meanwhile, the DJIA has gained 5.79% this month, while the S&P 500 has added 7.18%. Still, recent muddy economic data have left investors hesitant about the rally's sustainability and kept trading confined to a narrow range. As concerns over the economy have loosened their grip, anxiety rose on Thursday over US lawmakers' aggressive stance on China's exchange-rate policy and the potential to strain relations with China. Industrials weakened, weighed by a drop in FedEx. The shipping giant fell 3.8%, after its fiscal first-quarter profit more than doubled on a rise in revenue, but the company forecast second-quarter earnings below analysts' average estimate. The company also said it will combine its FedEx Freight and FedEx National LTL operations at the end of January, as it cuts 1,700 full-time employees and closes 100 facilities.

The Stoxx Europe 600 index slipped 0.8% to 263.47, with gains for some oil and gas heavyweights helping partially offset broad declines in most other industries. In the energy sector, BP and Royal Dutch Shell both rose 1.1%. Among the regional indexes, the UK's FTSE 100 index and the French CAC 40 index slipped 0.5% to 3,736.30. The German DAX 30 fell 0.2% to 6,249.65. Retail stocks were mostly under pressure after data showed a 0.5% monthly decline in British retail sales in August, significantly worse than the 0.3% increase expected by economists. Marks & Spencer and J Sainsbury PLC both dropped less than 1%.

The Nikkei Stock Average dropped 0.1% in Tokyo, China's Shanghai Composite dropped 1.9% and Hong Kong's Hang Seng Index shed 0.2%.

Base metals on the London Metal Exchange mostly closed marginally higher after drifting in their recent ranges for much of the session, with mixed US

data failing to provide any clear direction. Aluminium rose \$10 (0.47%) to \$2,160 while copper firmed \$50 (0.66%) to \$7,675 and nickel fell \$75 (0.32%) to \$23,130. Zinc added \$5 (0.23%) to \$2,145 and lead weakened \$15 (0.67%) to \$2,215. Comex copper was last quoted at 348.70 US cents per pound. Gold futures posted a new record settlement as the US dollar weakened and investors wanted more of the precious metal as a haven while equities eased. Spot gold was last quoted at \$1,275.30. Comex gold futures increased \$5.10 (0.40%) to \$1,273.80. Spot silver was last quoted at \$20.74. Crude oil prices dropped for the third straight day as a scheduled restart of a major pipeline rekindled oversupply concerns in the world's biggest oil consumer. West Texas Intermediate was last quoted at US\$74.57 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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