



WHK MARKET UPDATE for 15 OCTOBER 2010

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Market Summary

Thursdays Australian trade pushed higher buoyed by a strong resources sector, higher commodity prices and a higher Aussie dollar. Asian stock markets were higher with regional resources stocks stronger on the back of a surge in commodity prices. European stocks drifted lower to end in negative territory, as banking shares came under pressure and weak US economic data soured sentiment.

US stocks closed modestly lower as investors retreated from financials because of concerns over banks' foreclosure practices. In economic news, the US trade deficit ballooned to US\$46.35bn in August, inflated by a record-setting deficit with its largest trading partner, China, and cutting into 3Q US economic growth. In other economic news, weekly jobless claims rose 13,000 to 462,000, compared to expectations for a decline. In addition, producer prices gained 0.4% in September.

Local shares have no leads from the US and if this is anything like last time the US markets were flat we can expect a negative session. Thankfully sentiment towards Australian resources companies and commodity prices is stronger than the previous flat US session. Ahead of the local open the SPI futures are 10 points lower and Asian futures markets are mixed yet again.

Australian Company & Economic Reports

Consumer Inflationary Expectations Increase: Consumer inflationary expectations surged in October, marking the second straight gain after five straight months of declines, according to an industry survey. The Melbourne Institute Survey of Consumer Inflationary Expectations median expected inflation rate in September rose to 3.8% from 3.1% in September, partly reflecting a better-than-expected monthly jobs report for September. The survey found the amount of consumers expecting inflation to be within the RBA's target 2%-3% band decreased in the month to 15.1% from 19.0% a month ago.

Commonwealth Bank of Australia (CBA) Chief Executive Ralph Norris said that Australian banks will raise their interest rates independently of moves in the official cash rate. "I think there's no doubt that when we look at current funding costs, rates are going to increase," Norris said. Norris said he couldn't comment on when, or by how much, banks will raise their rates but said funding pressures will remain over the short-to-medium term. Norris told said that CBA is paying about 140 basis point more for five-year debt than immediately before the global financial crisis. Commonwealth Bank funds

about 40% of its book from debt markets and 60% from retail deposits. The cost to the bank of retail deposits has risen 146 basis points since pre-crisis levels, he said. CBA increased \$1.18 (2.36%) to \$51.20.

Rio Tinto (RIO) said iron ore output increased 1% on the year in the third quarter of 2010 to 47.6m tonnes from 47.0m tonnes in 2009. But US coal production fell 49% to 11.8m tonnes in the three months to the end of September from 23.3m tonnes in the same period last year. The hard coking coal used in steel mills rose 17% to 2.4m tonnes from 2.1m tonnes but other Australian coal sank 14% to 5.2m tonnes from 6.1m tonnes. Mined copper production also fell in spite of booming prices for the commodity, with production down 19% to 159,700 tonnes from 197,200 tonnes. Declining ore grades at the Escondida mine meant production at the site in Chile fell 6% on the year. The company said it expects its full-year share of iron ore production to total 179m tonnes, while mined copper would hit 660,000 tonnes over the year. It added that Alumina production would come to 9.4m tonnes while aluminium would reach 3.8m tonnes. Australian hard coking coal production is expected to be 9.5m tonnes, semi-soft coking coal 3.3m tonnes and thermal coal 19.1m tonnes. RIO rose \$3.46 (4.4%) to \$82.08.

Bank of Queensland (BOQ) said that full year net profit rose 27% on year to \$179.6m from \$141.1m a year ago and reiterated that it expects that charges for bad debts peaked during the latest financial year. The lender said that net interest income came in at \$561.5m for the 12 months to Aug. 31, up from \$481.1m last year. The group's more closely watched normalised cash profit came in at \$197.1m, a 5% improvement on year, while its net interest margin widened to 1.6% from 1.56% last year. BOQ will pay a final dividend of 26 cents a share, steady on year, but flagged higher payments in the year ahead. At the end of the reporting period, the group's Tier 1 capital position was 8.7%, at the higher end of its 8%-9% target range. BOQ fell 12 cents (1.14%) to \$10.40.

SEEK (SEK) said joint chief executive and co-founder Paul Bassat is resigning June 30 and that joint-CEO and cofounder Andrew Bassat will be the sole CEO after Paul departs. The group said a transition plan has already commenced. SEK firmed 8 cents (1.09%) to \$7.44.

International Market Report

The Dow Jones Industrial Average fell 1.51 points (0.01%) to 11094.6, snapping a four-session winning streak in a day of choppy trading. Financials led the Dow's declines. Bank of America dropped 69 cents (5.2%) to \$12.60 and J.P. Morgan Chase fell \$1.12 (2.8%) to \$38.72. Both are among the wave of banks reviewing their foreclosures after temporarily suspending evictions due to concerns over "robo signers," who approve hundreds of foreclosure documents a day. Among other banks reviewing foreclosures, Wells Fargo fell 5.1%. The drop follows probes by the 50 states' attorneys general into allegations that thousands of home foreclosures were improperly handled. The flood of mortgage worries could distract from potentially positive third-quarter earnings reports expected in the next several weeks, analysts said. Citigroup shares fell 19 cents (4.5%) to \$4.06.

But investors also said the market may also just be taking a natural breather after hitting its highest close since early May on Wednesday. The technology-oriented Nasdaq Composite shed 5.85 points (0.24%) to 2435.38. The Standard & Poor's 500-stock index fell 4.29 (0.36%) to 1173.81, weighed by the financial sector's 1.8% decline. Yahoo rose 68 cents (4.5%) to \$15.93, after The Wall Street Journal reported AOL and several private-equity firms, including Silver Lake Partners and Blackstone Group, are considering a possible takeover bid for the Internet company.

Verizon Wireless, partly owned by Verizon Communications, said it will sell Apple's iPad later this month, the first time Verizon will sell an Apple product in its stores. AT&T separately said it also plans to carry the iPad in its stores on the same day. Shares of Verizon gained 23 cents (0.7%) to \$32.44, while AT&T added 3 cents (0.1%) to \$28.50. Apple rose \$2.17 (0.7%) to \$302.31.

At 7:45 AM (AEST), the 10-year Treasury note yield was 2.50% and the 5-year yield was 1.18%.

The Europe Stoxx 600 index fell 0.2% to settle at 265.68, shedding earlier gains. London's FTSE 100 index dropped 0.4% to close at 5,727.21, as big banks fell. Resource stocks rose in Europe, following the pattern seen in Asia but gains were less pronounced. In London, miners provided support, with Xstrata PLC rising 3.2% and Fresnillo PLC up 2.3%. However, shares of African Barrick Gold PLC tumbled 9.5% on news the company cut its 2010 output target after it discovered fuel theft at its Buzwagi mine. The French CAC-40 index fell 0.2% to settle at 3,819.17. Shares of Societe Generale SA fell 3.1%, while Credit Agricole SA was down 1.7%. The German DAX 30 index bucked the weaker performance seen elsewhere in Europe, rising 0.3% to end at 6,455.27.

In foreign exchange markets, a surprise decision by the Monetary Authority of Singapore to tighten policy helped accelerate broad US dollar weakness, driving the Australian dollar within striking distance of parity with the US dollar, the Canadian dollar to parity with the greenback, the Japanese yen to a 15-year high, the euro to its highest since Jan. 27 and the Swiss franc to an all-time high.

Japan's Nikkei Stock Average was up 1.9%, South Korea's Kospi Composite was up 0.8% and Hong Kong's Hang Seng Index tacked on 0.7%. China's Shanghai Composite rose 0.2%. In Tokyo, Sumitomo Metal Mining surged 3.4% and Mitsui Mining & Smelting was up 5.3% and in China, Jiangxi Copper was up 1.6% and Zijin Mining was up 3.6%. Among oil-related stocks, Inpex was up 3.1% and Japan Petroleum rose 1.9%. In Hong Kong, Cnooc was up 2.4% and PetroChina rose 2.0%. The New Zealand stock market closed higher, tracking offshore leads after a strong night on Wall Street lifted investor sentiment. The NZX-50 index ended 1.0%, or 31 points, higher at 3,262.61 as investors shrugged off weak domestic data.

Base metals closed mixed on the London Metal Exchange after toppling from multi-month highs in jittery trade. Aluminium fell \$21 (0.85%) to \$2,402 while copper weakened \$24 (0.28%) to \$8,377 and nickel dropped \$30 (0.12%) to

\$24,370. Zinc rose \$1 (0.04%) to \$2,411 and lead shed \$15 (0.60%) to \$2,408. Comex copper was last quoted at 380.60 US cents per pound. Gold futures printed a fresh record settlement as monetary tightening in Singapore sent investors out of the US dollar and into the perceived hedge of the metal. Spot gold was last quoted at \$1,380.30. Comex gold futures strengthened \$7.10 (0.52%) to \$1,377.60. Spot silver was last quoted at \$24.62. Crude oil futures retreated from early gains, settling lower as a government report showed US demand for petroleum products fell to the lowest level in nearly a year. West Texas Intermediate was last quoted at US\$82.69 per barrel. The dollar fell sharply against a broad range of currencies as prospects for Asian economic growth contrasted with the likely need for more stimulus in the US. At 07:39 AM (AET) the US dollar was quoted at 0.7101 euros, 81.46 yen, 1.006 AUD and 62.47 pence.

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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