



WHK MARKET UPDATE for 28 OCTOBER 2010

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Market Summary

Wednesday, the Australian market ended lower as resources fell. However, banks remained upbeat after NAB delivered its full year result; ANZ reports this morning while Westpac release their results on 3 November. Asian markets ended mostly lower on Wednesday as commodity investments dropped in Hong Kong and China. European stocks finished lower for a second straight session on Wednesday, with weakness in the mining sector offsetting gains from Deutsche Bank and other financial firms. US stocks pared their losses to close near the day's highs, as investors grappled with shifting expectations for a major bout of easing by the Federal Reserve to stimulate the economy. The declines came as investors tamped down expectations for a "shock-and-awe" approach by the Fed to help the economy, a strategy the central bank had turned to during the financial crisis, in favour of an approach that allows them to adjust policy over time as the recovery unfolds. Expectations are now increasing for the Fed to unveil a program of US Treasury bond purchases of a few hundred billion dollars over several months, an approach in contrast to the central bank's purchases of nearly \$2tr of bonds during the financial crisis. The US markets largely ignored positive durable goods orders which posted their biggest rise since January after a spike in orders for civilian aircraft and aircraft parts, an often volatile category. Overall, durable-goods orders rose 3.3% in September to a seasonally adjusted \$199.16bn, more than the expected 2.5% rise. Today we can expect another flat session with the SPI Futures 14 points higher despite the drop in US markets overnight. The market yesterday reacted positively to NAB's result and we expect a similar reaction to ANZ's report.

Australian Company & Economic Reports

The Reserve Bank of Australia is unlikely to raise interest rates next week after third-quarter **Inflation Data** was weaker than expected. The consumer price index rose 0.7% in the third quarter and rose 2.8% from a year earlier, the Australian Bureau of Statistics said. Core inflation, which is critical for policy making decisions, rose 0.6% in the third quarter ended Sept 30, compared with a rise of 0.7% in the previous quarter.

This morning **ANZ (ANZ)** delivered their full year result with profit before provisions up 6%, net profit after tax up 33% and statutory profit up 53%. The result was a significant improvement due to falling debt provisions. The result is pleasing due to the increase in revenues but were offset by increasing expenses. Underlying earnings per share increased 18% and dividend per share increased 24% to \$1.26, a record dividend. Tier one capital was 10.1%

and net interest margin improved which is sure to please market participants. ANZ closed at \$24.04.

National Australia Bank (NAB) reported a 63% jump in full year net profit and boosted its dividend, underscoring the health of the sector as the resource-driven economy continues to fire. NAB said net profit for the 12 months to Sept. 30 rose to \$4.22bn from \$2.59bn a year ago, aided by lower charges for troubled loans. NAB's more closely watched cash profit, which strips out volatile items such as treasury share moves, rose to \$4.58bn from \$3.84bn. The bank surprised investors by boosting its final dividend to 78 cents a share from 73 cents last year. Bad debt charges, the only major blemish on earnings at Australian banks during the global downturn, peaked last year and are trending lower across the sector. NAB said new charges for problem loans fell to \$2.26bn in the latest financial year from \$3.82bn a year earlier. Still, NAB's result shows that credit demand remains relatively weak, particularly from businesses in non-resource states. NAB said its full year revenue fell 1.4% on year to \$17.01bn as net interest income slipped 1.8% to \$12.29bn. Costs rose 3.7% to \$7.9bn. NAB firmed 51 cents (2.06%) to \$25.26.

Toll Holdings (TOL) gave no impression that it will slow its aggressive global expansion while it spends over a year hunting for long-standing Chief Executive Paul Little's replacement. "You can't expect a pause in anything," Little said. "We have acquisitions that are being integrated and acquisitions that are being considered from a strategic point of view." The new CEO will be expected to stick to Toll's five-year strategic plan approved by its board two months ago, said Chairman Roy Horsburgh, who brushed off suggestions that Little's intention to remain a substantial shareholder and return to the company's board will cramp his replacement's style. "Paul is a brilliant leader and I think he understands the definition between a board's role and a CEO's role," Horsburgh said. Toll confirmed that Little intends to stand down in January, 2012, by which time he would have spent 26 years at the helm, then return as a non-executive director "after an appropriate time". Internal and external candidates are being considered and Little said a shortlist and perhaps even a preferred candidate may be selected by June or July. Horsburgh declined to specify what Little will get in termination payments, adding that the company has hired another external consultant to advise it on his transition conditions. TOL fell 44 cents (6.63%) to \$6.20.

Sigma Pharmaceuticals (SIP): The Australian Competition and Consumer Commission said it is seeking more information on competition issues in Aspen Pharmacare's potential takeover of Sigma's pharmaceuticals division. Sigma in August agreed "in principle" on the sale of that division to Aspen. Sigma and Aspen have agreed to deal exclusively until Oct. 29. The ACCC is seeking further information on some issues that have come up from the agency's market inquiries and is inviting further market submissions until Nov. 11. "As a result, the ACCC's final decision will be deferred until Nov. 25, 2010," the ACCC said. SIP dipped 1 cent (1.09%) to \$0.46.

International Market Report

The Dow Jones Industrial Average declined 43.18 points (0.4%) to 11,126.28 while the Standard & Poor's 500-stock index lost 3.19 points (0.3%) to 1,182.45. The Nasdaq Composite added 5.97 points (0.24%) to finish at 2,503.26. Stocks retraced most of their earlier declines, when the Dow was down by nearly 150 points in intraday trading. Energy stocks were among the biggest drags on the stock market, after weekly oil-inventory numbers showed US stockpiles of crude oil rising by five million barrels. Exxon Mobil dropped 1.3% and Chevron fell 1% as crude-oil prices fell. ConocoPhillips fell 1.2%, despite posting third-quarter earnings that more than doubled, buoyed by higher commodities prices and improved refining margins. Oil prices also were hurt by the rising US dollar, which hit commodity prices across the board. Gold fell to just over \$1,320 an ounce, while copper tumbled 2.3%. That sent down materials and industrials stocks, the two worst performing sectors of the day. Bank of America gained 2.1% to lead the Dow industrials as well as a broader recovery in financial stocks after concerns earlier this month about mortgage foreclosures. Meanwhile, new-home sales in September continued their rise from a rock-bottom level, increasing 6.6% to a seasonally adjusted annual rate of 307,000, more than consensus estimates of a 4.2% increase.

European stocks finished lower for a second straight session on Wednesday, with weakness in the mining sector offsetting gains from Deutsche Bank and other financial firms.

The Stoxx Europe 600 index fell 0.8% to 264.93. It lost 0.2% on Tuesday. Questions surrounding the scale of a new round of quantitative easing from the US Federal Reserve ahead of a key Nov. 2-3 policy meeting remain a large focus for European investors and are at the root of much of the markets' volatility. A report out on Wednesday said the Fed's quantitative-easing plan was to buy US government bonds worth a few hundred billion dollars over a period of several months rather than in one go. German and French stock markets oscillated throughout the session but eventually ended lower. In London, miners weighed on the index for a second day as prices of precious metals fell. The FTSE 100 index closed down 1.1% to 5,646.02.

Hong Kong's Hang Seng Index dropped 1.9% and China's Shanghai Composite gave up 1.5%. Japan's Nikkei Stock Average climbed 0.1% after a volatile session, as some exporters advanced on the dollar's gains against the yen.

Base metals on the London Metal Exchange ended sharply lower on a rallying US dollar, which strengthened as investors lowered their expectations for US Federal Reserve monetary easing. Aluminium fell \$64 (2.71%) to \$2,294 while copper weakened \$212 (2.49%) to \$8,291 and nickel dropped \$496 (2.14%) to \$22,734. Zinc shed \$105 (4.06%) to \$2,483 and lead lost \$48 (1.87%) to \$2,518. Comex copper was last quoted at 378.10 US cents per pound. Gold futures dropped as the combination of a rising dollar and expectations of muted quantitative easing proved poisonous to the metal. Comex gold futures shed \$16 (1.20%) to \$1,322.60. Crude settled lower as a stronger dollar weighed on prices, but an unexpected drop in weekly gasoline inventories helped prevent a larger decline. West Texas Intermediate was last quoted at US\$81.84 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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