



WHK MARKET UPDATE for 10 December 2010

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Market Summary

The Australian market rose yesterday after positive employment numbers. China's shares fell as some investors interpreted the central bank's scrapping of a regular auction of three-year bonds as a sign it will increase interest rates over the weekend. European stocks ended at a multiyear high on Thursday, with banks and chip-equipment maker ASML Holding NV leading the gains, while investors shrugged off a downgrade of Ireland. US stocks wavered between small gains and losses on Thursday as data providing mixed readings on the US economy failed to send the market in a clear direction.

The Australian market should have a relatively quiet session with the SPI Futures indicating a slight fall. Asian Futures markets are positive this morning. Volumes of news and interest have been waning over the past week and we have noticed an early slowdown in news flow and company reports heading into the Christmas period.

Australian Company & Economic Reports

Employment Numbers Surge: Employment surged in November, blunting speculation economic growth slowed over recent months, and fuelling a rebound in the Australian dollar. For November, unemployment fell to a seasonally adjusted 5.2% from 5.4% in October. The number of employed rose 54,600, the Australian Bureau of Statistics said. Also in the report, the number of full-time workers rose 55,100, while the number of people in part-time work was little changed. Total employment growth in the last year stands close to 400,000, providing a strong line of contrast with economies like the US and the UK where unemployment is close to double the Australian rate and policy measures have yet to spark concerted hiring.

Rio Tinto (RIO): Canada-based Ivanhoe Mines said it has reached an agreement with Rio to secure as much as \$6.5bn to develop the first phase of Mongolia's massive Oyu Tolgoi copper and gold deposit. The financing agreement ensures that Oyu Tolgoi has the funds necessary to start producing copper and gold from the mine complex before the end of 2012 and start commercial production in 2013. The mine is forecast to ramp up to annual production of more than 450,000 tonnes of copper and 650,000 troy ounces of gold ounces a year. Under the agreement, Rio will assume management responsibilities for the construction of the Oyu Tolgoi project in addition to operating the mining complex. It will also be able to increase its ownership of Ivanhoe shares. In return, Rio has agreed to provide a comprehensive financing package that includes a US\$1.3bn cash payment to

Ivanhoe and a US\$1.8bn short-term finance loan. RIO advanced 43 cents (0.49%) to \$87.94.

Bank of Queensland (BOQ) late Wednesday cut its forecast for net profit in the year to Aug 31, 2011, following a review of its commercial lending portfolio and raised its bad and doubtful debt expense for its fiscal first half. The regional bank said its extensive review of the portfolio was in response to weaker than expected trading conditions. "As a result of this review, we have today increased our projected bad and doubtful debt expense to \$85m-\$90m for the first half FY11, based in part on an increase in impaired commercial assets of \$97m," said Managing Director David Liddy. "This is above the previous expectations of bad and doubtful debt expenses in first half FY11, which was in line with second half FY10 results of \$53m." Liddy added that the bank expects a "significant improvement" in bad and doubtful debt expenses in the fiscal second half. However, the bank's net profit outlook for the full year was lowered to a range of \$210m to \$230m from a previous forecast of \$220m to \$250m. BOQ fell 66 cents (5.54%) to \$11.25.

International Market Report

The Dow Jones Industrial Average lost 2.4 points (0.02%) to 11,370.1. The Dow's financial components kept its declines in check, with Bank of America up 4.2% and JP Morgan Chase up 1.3%. Cisco was also strong with a 2% gain while Verizon Communications added 1.9%. The Nasdaq Composite increased 7.5 points (0.29%) to 2,616.7. Earlier it hit a fresh 2010 intraday high at 2,624.84. The Standard & Poor's 500 advanced 4.7 points (0.38%) to 1,233.0. Its consumer-discretionary and technology sectors fell, but the index's financial sector climbed after analysts upgraded a trio of asset managers to overweight, saying "the stars are aligned at present with respect to the consistency of the strategy views around the equity markets." The mixed activity followed conflicting economic data. Initial unemployment claims fell by more than expected last week, but the previous week's figures were revised slightly upward. Meanwhile, inventories of US wholesalers rose more than expected in October, while fast-growing sales also signalled some underlying support for the economy, but the pace of the rise in inventories still exceeded the gains in sales.

The Stoxx Europe 600 index closed up 0.4% at 275.93 - its highest closing level since late September 2008. Among the main indexes, the UK's FTSE 100 rose 0.2% to 5,807.96, holding on to gains after the Bank of England left the country's key interest rate on hold at 0.5% and maintained its asset-purchase program at GBP200bn, as expected. Meanwhile, the French CAC 40 index closed up 0.7% at 3,858.05. Strength among banking stocks helped drive both indexes higher. Royal Bank of Scotland Group rose 3.3% in London, and BNP Paribas climbed 2.8% in Paris. The German DAX 30 index, which has significantly lower exposure to banks and higher exposure to industrial and auto stocks, underperformed the other major European averages. The index closed down 0.2% at 6,964.16 after topping 7,000 on Tuesday for the first time in more than two years. Auto stocks took the brunt of that selling on

Thursday, with BMW AG falling 2.8% and Volkswagen AG's preference shares dropping 3.9%.

Japan's Nikkei Stock Average gained 0.5% to 10,285.88, its highest close since May 14, Hong Kong's Hang Seng Index added 0.3% and China's Shanghai Composite dropped 1.3%.

Base metals pared early gains to close mostly lower on the London Metal Exchange after investors booked profits on copper's record highs and the US dollar rebounded against the euro. Aluminium fell \$55 (2.32%) to \$2,320 while copper weakened \$95 (1.05%) to \$8,920 and nickel dropped \$450 (1.88%) to \$23,550. Zinc shed \$34 (1.47%) to \$2,280 and lead remained unchanged at \$2,405. Comex copper was last quoted at 407.00 US cents per pound. Gold snapped a two-day losing streak to settle higher as inflation concerns and weaker Treasury yields lured buyers back to the safe-harbour asset. Spot gold was last quoted at \$1,385.21. Comex gold futures added \$9.50 (0.69%) to \$1,392.70. Spot silver was last quoted at \$28.49.

Oil settled slightly higher after two sessions in the red, tracking a lacklustre day for stocks and mild gains for the dollar. West Texas Intermediate was last quoted at US\$88.80 per barrel.

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

Disclaimer:

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