



WHK MARKET UPDATE for 28 January 2011

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Market Summary

Thursday the Australian market defied early indications by holding flat. Most Asian markets ended higher with Tokyo stocks getting a boost from a bullish earnings view and a slightly weaker yen, however this was tempered by an announcement from the credit rating agency S&P who downgraded Japan's credit rating to AA- from AA following a review of the Japanese fiscal position and lack of significant action over government spending. Declines in Chinese property developers weighed on shares in China and Hong Kong. European shares edged higher on Thursday as miners and some financial stocks gained ground, though retailers fell after disappointing results from Swedish fashion chain Hennes & Mauritz. The Dow Jones Industrial Average dallied around the 12,000 mark on Thursday as mixed economic data and corporate earnings left the market struggling to find direction. Data released saw orders for goods expected to last at least three years fall and a reading of manufacturing activity in the Federal Reserve Bank of Kansas City's district slowed sharply in January. Earnings from a batch of bellwether consumer companies and a pair of drug makers got a mixed reaction in the market.

Overnight the Dow Jones gave flat leads and the Australian SPI Futures is indicating an 11 point gain for today's trading. Asian futures markets are negative.

Australian Company & Economic Reports

Rio Tinto (RIO) and Coal & Allied Industries (CNA): Revenues at Coal & Allied fell 10% during 2010 but profits were cushioned by the sale of \$337m of projects to Whitehaven Coal and Aston Resources, the miner said. Net profit rose 20% to \$704m in 2010 from \$586m in 2009, but excluding the sales of the Maules Creek and Vickery mines the figure fell 37% to \$387m. The company is a subsidiary of Rio. Managing Director Bill Champion said that a stronger Australian dollar and a higher proportion of waste material at mine sites had eaten away at profits despite improvements in the price of US dollar-denominated thermal and semi-soft coking coal. Separately, Coal and Allied said that coal resources fell 28% to 3.54bn tonnes in 2010 from 4.92bn tonnes at the end of 2009, although roughly half of that fall came from the sale of the Maules Creek and Vickery mines. Coal reserves fell by 39m tonnes from 1.05bn tonnes to 1.01bn tonnes, against the 25.3m tonnes produced by Coal & Allied during the year. RIO gained 53 cents (0.62%) to \$86.04. CNA remained unchanged at \$129.74.

Santos (STO) said that it has suspended production at its Mutineer-Exeter oil field offshore northwest Australia due to the approach of Tropical Cyclone

Bianca. The Mutineer-Exeter floating storage and offloading facility departed its location Tuesday and is sailing to sea to avoid the cyclone, a Santos spokesman said. STO rose 2 cents (0.15%) to \$13.67.

International Market Report

The Dow added 4.4 points (0.04%) to 11,989.8. The measure stopped just short of closing above 12,000 on Wednesday and hasn't finished above that level since June 19, 2008. The Nasdaq Composite Index gained 15.8 points (0.58%) to 2,755.3. The Standard & Poor's 500-stock index strengthened 2.9 points (0.22%) to 1,299.5.

Consumer giant Procter & Gamble sank 3.9% after its fiscal second-quarter profit slid 28% from a year-earlier period that included a large gain from discontinued operations, as profit margins were narrowed by rising commodity costs. Colgate-Palmolive, the world's largest toothpaste maker by sales, shed 2.7% after its fourth-quarter earnings fell 1.1% on lower-than-expected revenue, as higher materials costs hit margins. The company also forecast fiscal third quarter earnings of 95 cents to \$1 a share. Analysts projected 99 cents. AT&T fell 3%, hurt by a steep decline in the number of net new customers the telecommunications company signed to long-term service contracts in the fourth quarter. Earnings narrowly beat analysts' expectations, but revenue came up short of forecasts.

Heavy-machinery maker Caterpillar rose 1% after the company's fourth-quarter earnings soared, beating analysts' estimates as demand recovered from slumping levels a year earlier. The reaction to Caterpillar's earnings may have been dented as the durable goods reading cut into investors' enthusiasm for industrial stocks on Thursday.

The Stoxx Europe 600 index advanced 0.2% to 282.88. Losses for bank stocks had initially pulled the index lower after Standard & Poor's cut Japan's long-term sovereign-debt rating by one notch to AA- from AA. But the sector swiftly recovered as the focus swung back to the Federal Reserve's decision to continue its \$600bn Treasury-buying program. Also aiding sentiment was news that the European Commission's measure of confidence among manufacturers rose to 6.0 from 4.9, driven by rising orders, particularly for exports. Economists had forecast a rise to 5.0.

The UK FTSE 100 index ended a volatile session down 0.1% at 5,965.08 as stronger commodity prices helped extend gains for mining stocks. Among the other main indexes, the French CAC 40 rose 0.3% to 4,059.57, helped by a 4% gain for Airbus parent EADS. Officials at the Pentagon reportedly said that the accidental release of details of Boeing and Airbus bids for a contract to build refuelling aircraft would affect the outcome of the competition. The German DAX 30 climbed 0.4% to 7,155.58. Shares in Software AG jumped 7.3% after the business software provider reported a 35% rise in profit, taking the company a step closer to its aim of joining the DAX index.

Japan's Nikkei Stock Average rose 0.7%, the Shanghai Composite advanced 1.5%, while Hong Kong's Hang Seng index fell 0.3%.

Base metals on the LME finished mixed. Aluminium rose \$27 (1.13%) to \$2,427 while copper firmed \$81 (0.87%) to \$9,441 and nickel fell \$105 (0.39%) to \$26,495. Zinc weakened \$15 (0.66%) to \$2,260 and lead added

\$35 (1.47%) to \$2,420. Comex copper was last quoted at 433.35 US cents per pound. Gold futures slumped to their lowest point in nearly four months. Spot gold was last quoted at \$1,311.80. Comex gold futures lost \$20.00 (1.49%) to \$1,318.40. Spot silver was last quoted at \$26.92. Oil turned lower following weaker than expected readings on the US economy, while the gap between the two most widely used oil benchmarks soared to a new record. West Texas Intermediate was last quoted at US\$85.64 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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