



WHK MARKET UPDATE for 20 May 2011

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Market Summary

Yesterday the Australian market brushed off the Moody's downgrade for the Big Four Banks and stormed higher making back the losses of earlier in the week. The market trend was upward and continued for most of the day. Asian shares ended mixed Thursday, with Japanese stocks falling on data showing the nation's economy contracted sharply in the January-March period, something that should have been expected given the impact of the natural disaster in that area. European stock markets ended higher Thursday with the banking sector gaining as investor risk appetite grew.

In the US, major stock indexes staged their second straight gain. In economic news, initial unemployment claims fell 29,000 to a seasonally adjusted 409,000 in the week ended May 14, in an indication that layoffs may resume a downward trend after a late-April spike. The market gains came in spite of a batch of weak economic data. Stocks lost some of their footing mid-morning after the Federal Reserve Bank of Philadelphia's reading on mid-Atlantic manufacturing activity plunged. Meanwhile, sales of previously occupied homes in the US fell slightly in April. The data washed out some of the favourable sentiment that followed better-than-expected unemployment claims figures early Thursday.

Long View

Overnight there was confirmation of the return on the internet bubble; version 2.0 is based around network effects more so than dotcom or internet named companies. Investors saw a sharp rise in professional networking site LinkedIn's stock price on the first day of trading, igniting hopes that successful IPOs can help drive more capital off the sidelines. LinkedIn's stock closed up 109%, making it 2011's best-performing initial public offering, according to data from Standard & Poor's. This gives a market capitalisation of more than \$11bn when just two weeks ago the company had proposed a price of just \$3bn. This comes on the back of the recent purchase of Skype by Microsoft last week for \$8bn and demonstrates the high prices being paid for companies that use network effects to sell advertising.

The market is very excited about any stock that uses social networking and use of what is called the network effect which is where the value of a product increases when more people use it. The internet has expanded the ability of companies to be able to use this to their advantage but the question remains will the people that have paid the high prices be compensated by the profit that the companies will generate. For example the price to earnings ratio of LinkedIn is 554 times; the Microsoft acquired Skype is yet to make a profit. It looks more and more like the late 1990's with participants trying to price in

blue sky. Some of the companies will do well as seen in tech boom version 1.0 but others will fail and fail spectacularly. We will watch with interest.

Australian Company & Economic Reports

Leighton (LEI) said it won two contracts for the South Island Line rail project in Hong Kong, worth around \$547m in total. One of the two contracts was awarded to a joint venture between Leighton Asia and John Holland. The South Island Line will cover about seven kilometres from Admiralty station to South Horizons on the south side of Aberdeen Harbour. Construction is scheduled to begin this month and end in 2015. LEI ended 15 cents higher at \$23.55.

Brambles (BXB) said it is winning back customers but cautioned on the impact of rising costs across its business. The company reiterated its annual profit guidance and forecast fresh revenue from the newly acquired IFCO Systems as sales rose 5% in the first nine months of the 2011 fiscal year supported by US contract wins. Conditions in Brambles largest European markets remain challenging and the recovery in US consumer activity has been modest as fierce competition between pallet providers squeezes margins. BXB closed 27 cents higher at \$7.27.

Transfield Services (TSE) said it has agreed to sell its North American facilities maintenance business USM to Emcor for US\$255m. The company also reiterated a target of mid-single-digit percentage growth for fiscal 2011 net profit before items. The expected contribution to earnings before interest, taxes, depreciation and amortisation from the USM sale is about \$24m. TSE expects to continue to pay dividends within the previously disclosed target range of 50%-70% of operational net profit. TSE added 5 cents to \$3.73.

MAp (MAP) forecast a flat annual distribution payment in 2011. MAP said it expects to pay a distribution of 21 cents per stapled security in the year to Dec 30, in line with 2010. The "preliminary guidance" is subject to external shocks to the aviation industry and material changes to forecast assumptions. MAP strengthened 5 cents to close at \$3.00.

International Market Report

The Dow Jones Industrial Average finished with a gain of 45.14 points (0.36%) at 12605.32. The Standard & Poor's 500-stock index added 2.92 (0.22%) to 1343.60, boosted by the industrial and telecommunications sectors. The Nasdaq Composite rose 8.31 (0.30%) to 2823.31 for its third straight gain. Trading was relatively light, with about 3.3bn shares changing hands in NYSE composite volume. A trio of dismal economic indicators gradually dimmed the luster of an early upbeat jobs report Thursday as Treasury prices staged a late comeback. At 7:45AM (AEST), the 10-year Treasury note was down 0.9 basis points to 3.17% and the five year note was down 2.5 points to 1.82%.

The Stoxx Europe 600 index rose 0.7% to close at 280, helped initially by a strong end to Wall Street's trading session Wednesday. European markets trimmed gains, however, as US stocks faltered in Thursday's session.

Meanwhile, bank stocks gained across Europe. London's FTSE 100 index rose 0.5% to close at 5,955.99

In energy, light-crude futures dipped below \$100 a barrel after a string of disappointing US data. Oil producers held on to gains, however. The rise for Total, along with gains for banking stocks, helped push the French CAC 40 index to a 1.3% gain, ending at 4,027.74. In Germany, the DAX 30 index advanced 0.7% to close at 7,358.23.

Japan's Nikkei Stock Average fell 0.4% to 9620.82, South Korea's Kospi skidded 1.9% to 2095.51, China's Shanghai Composite declined 0.5% to 2859.57, and Hong Kong's Hang Seng Index gained 0.7% to 23,163.38. Stock losses in Tokyo came after data showed the March 11 earthquake and tsunami resulted in gross domestic product contracting 0.9% in the January-March period from the preceding three months, or a 3.7% annualised decline. Japanese utilities declined after Prime Minister Naoto Kan Wednesday raised the possibility of splitting up electricity generation and distribution businesses.

Base metals closed mostly lower on the London Metal Exchange Thursday, following a day of currency-driven range trading that saw the metals fail to maintain the upward momentum of the previous session. While a return to the record prices seen earlier in the year may still be in sight for copper, upward progress is likely to be choppy and laboured, market players said. Oil futures fell Thursday after a series of economic reports raised concerns about weakening crude demand. A stronger US employment picture weighed on gold prices, with silver losing steam to end in negative territory as traders remain jittery after the metal's steep losses earlier this month.

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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