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WHK MARKET UPDATE for 16 February 2011

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Market Summary

Yesterday was a volatile session, with the local market finishing marginally lower, pushed down by the financial sector. Asian markets ended mixed with Japanese and Taiwanese stocks rising on relief over milder-than-feared inflation data from China, while Hong Kong shares retreated amid worries that price pressures on the mainland will remain at elevated levels.
European stocks posted modest gains as strong earnings from Barclays PLC and Danone SA helped investors look past lacklustre economic data.

US stocks declined as the latest round of economic data was mostly uninspiring and added to investors' inflation worries. The declines followed data showing US import prices rose much more than expected in January as costs increased for energy, food, and industrial supplies. In addition, the Federal Reserve Bank of New York's Empire State Manufacturing Survey showed while New York manufacturing activity continued to expand in February, pricing pressures rose. Other data released showed US retail sales rose just 0.3% in January, smaller than the 0.6% rise economists had expected, although investors said last month's snowy weather likely had an impact. US home builders stayed pessimistic this month, and US business inventories in December grew to their highest level in nearly two years. Taken together, the data were seen as uninspiring.

Locally, we can expect a lower start to trading, with the SPI Futures down 6 points, whilst Asian Futures are mixed.

Australian Company & Economic Reports

Personal Finance Falls: The value of personal finance issued in December fell 0.2% to $7.74bn after seasonal adjustment from November, the Australian Bureau of Statistics said. The decline in personal finance comprised a 0.1% fall in revolving credit and a 0.4% fall in fixed lending. Commercial finance rose 3.3% to $31.5bn in December from November. A rise of 9.7% in revolving credit for commercial finance was accompanied by a rise of 0.5% in fixed lending commitments. The use of commercial finance for purchasing dwellings for rent or resale rose 2.3% in December. Lease finance fell by 8.7% to $378m.

Westpac Banking Corp (WBC) said its first quarter cash earnings fell about 3% to $1.55bn from the same period a year earlier. Cash earnings for the three months to December 31 fell from $1.6bn a year earlier because the prior period was boosted by high treasury and markets income. Westpac said devastating floods in Queensland during the bank's first quarter sliced about

$50m off the bank's pre-tax earnings for the period. The bank expects insurance claims to increase as the impact of natural disasters in the eastern states is more fully assessed. WBC shed 11 cents (0.45%) to $24.31.

Brambles (BXB): Spending by Brambles to make its blue wooden pallets more appealing to retailers has won back customers in its important US market, offsetting subdued economic conditions there and in Europe to help drive a 6% rise in first half profit. Sustained economic growth in Asia also boosted earnings, although fragile consumer confidence in Australia is hurting retailers. Brambles' net profit for the six months to December 31 rose to US$219.6m, from US$207.1m a year before despite the patchy economic conditions in its key markets. Underlying profit, which excludes one-off items, rose 8% to US$225.4m. Brambles reiterated its full year operating profit guidance. First half group sales revenue rose 3% to US$2.15bn from US$2.09bn and 4% on a constant-currency basis. Brambles achieved net customer wins in all regions, helping CHEP Americas sales rise 5%. Asia Pacific revenue jumped 13% but European revenue fell 2%. Brambles is still forecasting earnings before interest and tax of US$740m-US$780m, despite first half EBIT of $366.1m falling short of the US$370m-US$390m midpoint of its guidance. It declared an interim dividend of 13 cents a share. BXB fell 4 cents (0.55%) to $7.19.

AXA Asia Pacific (AXA) shareholders will vote on the takeover proposal on March 2, and the deal is expected to be implemented by March 30. The cash-and-stock offer has a floor of $6.43 per AXA share, subject to AMP's share price remaining above $4.50. AXA's bottom line was hit by a $26.5m write down of the company's remaining investment in India. By contrast, the year earlier result was boosted by positive non-recurring items including a $39m profit from 50% of the company's India interests. Group operating earnings for year rose 3% on to $572.2m from a year earlier, and were up 13% when the currency impact was stripped out. Full year revenue fell by 13% to $5.31bn from $6.11bn a year earlier. Funds under management, administration and advice fell by 9% to $73.83bn from $80.94bn a year ago. AXA said it will pay a final dividend of 9.25 cents a share, the same as it paid a year earlier, taking the full-year dividend to 18.5 cents. AXA lost 1 cent (0.16%) to $6.42.

International Market Report

The Dow Jones Industrial Average shed 41.55 points to 12,226.64, its biggest one-day drop since January 28. Exxon Mobil led the Dow's decline with a 2.3% drop. The oil giant said it added 3.5 billion barrels of oil equivalent, led by natural-gas projects, to its proved reserves last year, replacing more than 200% of its production for 2010. Because the report showed Exxon Mobil is finding far less oil than natural gas, it was seen as a sign that the company could be heading towards a less profitable business model. It also weighed on other energy companies, with traders saying that the increase in reserves sparked worries that higher inventories could weigh on energy prices. Chevron slipped 0.6%, hurt by Exxon's announcement and an Ecuadorian judge's order for the oil giant to pay $8.6bn to clean up oil pollution in the country's rainforest in what is believed to be the largest-ever judgment in an environmental case. The Nasdaq Composite fell 12.83 (0.46%) to 2,804.35.

The Standard & Poor's 500 index declined 4.31 (0.32%) to 1,328.01, led by its energy sector.

The Stoxx Europe 600 index gained 0.1% to end at 289.44, inching past its highest closing level since September 2008 achieved Monday. Shares of Barclays climbed nearly 5%. Falling impairment charges for the year helped the UK lender beat earnings expectations, though it also said its return on equity--a key measure of profitability--won't return to pre-crisis levels.
The figures boosted the European banking sector. Shares of Credit Agricole SA rose 1.6%, Deutsche Bank AG rallied 2.5% and Lloyds Banking Group PLC rose 1.6%. Mining stocks moved lower across the board after inflation data from China. In Germany, the DAX 30 index climbed 0.1% to 7,400.04, largely shrugging off a smaller-than-expected 0.4% increase in fourth-quarter gross domestic product.

Japan's Nikkei Stock Average rose 0.2% and Taiwan's Taiex added 0.4%. In the other direction, Hong Kong's Hang Seng Index declined 1% and South Korea's Kospi dropped 0.2%. The Shanghai Composite itself ended little changed after moving in both directions in a choppy session, during which the benchmark index hit its best level in three months. The divergence came after data showed China's consumer price index rose 4.9% in January from a year earlier, above December's 4.6% rise but much lower than the 5.4% increase forecast by economists. Metal plays posted solid gains on mainland bourses, supported by Monday's strength in global metal prices. Jiangxi Copper climbed 3.2% and Aluminum Corp. of China added 4.3%. But financial stocks ended broadly lower as investors locked in recent gains, with Agricultural Bank of China sliding 0.8% and China Life Insurance dropping 0.9%. In Hong Kong, energy-sector shares declined after crude-oil prices ended below $85 a barrel in New York overnight, with PetroChina falling 1% and Cnooc losing 1.2%. In Tokyo, relief over the softer-than-expected China CPI underpinned the market, but investors were reluctant to commit themselves after Monday's solid gains. Investors also largely shrugged off the widely predicted outcome of the Bank of Japan's policy meeting.

Base metals on the LME finished down. Aluminium fell $27 (1.07%) to $2,493 while copper weakened $215 (2.12%) to $9,945 and nickel dropped $55 (0.19%) to $28,745. Zinc shed $30 (1.20%) to $2,475 and lead lost $10 (0.38%) to $2,635. Comex copper was last quoted at 452.50 US cents per pound. A burst of safe-haven purchases carried gold prices to positive territory. Spot gold was last quoted at $1,372.65. Comex gold futures added $8.50 (0.62%) to $1,373.60. Spot silver was last quoted at $30.69. Oil futures fell to their lowest level in more than two months as concerns about high US crude supplies overtook worries of spreading unrest in the Middle East. West Texas Intermediate was last quoted at US$84.19 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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