

HD Australian Equities Roundup -- Market Talk**WC** 3,457 words**PD** 14 July 2014**ET** 14:58**SN** Dow Jones Institutional News**SC** DJDN**LA** English**CY** Copyright © 2014, Dow Jones & Company, Inc.**LP**

0836 - Australian Prime Minister Tony Abbott will likely be successful in winning over an obdurate new senate, but Barclays concedes this may take longer than it expected. Facing opposition from the Palmer United Party and the Greens, Mr. Abbott will presumably amend a proposal to repeal the carbon tax to ensure it passes. "This last-minute change underscores the unpredictability of the new senate," Barclays says. "This same point is made by the Palmer party unexpectedly indicating it will reject the planned scrapping of the welfare measures that were funded by these taxes." Blocking the changes could add A\$7 **billion** to the government's forecast budget deficit of A\$30 **billion** in 2014-15. So, Barclays says there's the clear risk that fiscal policy is easier in the short term than either it or Australia's central bank envisaged. (david.winning@wsj.com; @dwinningWSJ)

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0856 - The bigger risk for Australia right now is a renewed recession and rising unemployment, not runaway inflation, says Carl Weinberg, chief economist at High Frequency Economics. He cites a number of concerns, including fiscal austerity, which comes to about 1.3% of GDP in 2014-15. Income from commodity exports is also being clobbered by a sharp worsening of the terms of trade in local currency, just as **coal** and **iron** prices have been tumbling. The AUD is also rising year-year-on-year, choking exports. "We see no case for the Reserve Bank of Australia to raise rates right now, even though CPI increases are rising toward the top of their 2-3% target range," Weinberg says. "If austerity is maintained and the economy slows, below-potential growth will brake price pressures with no help from the bank." (david.winning@wsj.com; @dwinningWSJ)

0912 - Fortescue Metals Group Ltd. (FMG.AU) may have fallen short of its FY14 shipping guidance and disappointed by selling its **iron ore** at weaker-than-expected prices last quarter, but that hasn't turned J.P. Morgan sour on the stock. "While we acknowledge investor confidence in the stock has taken a hit recently with the widening price discounts, we don't believe one quarter of weak pricing represents a permanent structural change in realizations," says analyst Lyndon Fagan, who maintains an overweight rating with a A\$5.10 price target. He says Fortescue's achieved price of US\$106/ton in FY14 implies a 4Q **iron-ore** price of US\$82/ton, below the bank's US\$90/ton estimate. Still, Fagan says the stock has room to rise up to 20% to its net present value. FMG closed Friday down 0.2% at A\$4.34. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

0921 - Volatility in LNG Ltd.'s (LNG.AU) stock has subsided recently, with trade volumes and price variation normalizing. "We view this as a good time to buy in or accumulate further stock in the **lead** up to a number of key milestones in the coming 3-4 months," says Foster Stockbroking. These milestones include binding tolling agreements for its Magnolia project in the U.S., finalizing an EPC contract and the project's capital costs, concluding a project finance term sheet, and regulatory approvals. Foster rates LNG Ltd. as a buy with a A\$3.44 price target. LNG last traded at A\$2.22. (david.winning@wsj.com; @dwinningWSJ)

0925 - Australia's S&P/ASX 200 looks set to consolidate before key events this week. RBA minutes and U.S. retail sales are due Tuesday, and **China** releases GDP, industrial production and retail sales on Wednesday. The Fed's "beige book" is also due Wednesday, and voting FOMC members Janet Yellen and Richard Fisher are speaking. Thursday sees U.S. housing starts data released. Some lingering caution was evident Friday, with U.S. 10-year bond yields down 2 basis points and spot **gold** remaining near a 4-month high. But equities appeared reassured that the delay in Banco Espirito Santo's debt repayment won't have broader implications for European banks. While BES said it had a 1.18 **billion**-euro exposure to the Espirito Santo conglomerate, its capital buffer is 2.1 **billion** euros above the

minimum regulatory level. IG strategist Evan Lucas tips a 0.5% opening rise in the S&P/ASX 200. Last 5486.8. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0940 - A change in the regulatory regime in India is very likely to see Insurance Australia Group Ltd. (IAG.AU) lift its **stake** in SBI General Insurance, suggests J.P. Morgan. The first budget from India's new government includes plans to increase foreign ownership caps on insurers to 49% to encourage investment. IAG bought a 26% interest in SBI for roughly A\$126 **million** (\$118.3 **million**) in late 2009, and J.P. Morgan analyst Siddharth Parameswaran believes it will spend an estimated A\$150 **million** to take that to 49% in light of the ownership rule change. IAG's stated goal is for its Asian businesses to represent 10% of gross written premiums on a proportional basis by 2016. Still, J.P. Morgan says the main focus over the coming year will be on insurance margins, as IAG beds down the recently acquired insurance unit of Wesfarmers Ltd. (WES.AU). IAG is neutral with a A\$5.48/share (\$5.14) target. IAG last traded at A\$5.98. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1001 - Bank of America Merrill Lynch says Fortescue's (FMG.AU) 4Q pricing was worse than expected though it still rates the **iron ore** miner a Buy, with a A\$6.50 target price. "Today's announcement does not change our view on near term results materially, but increases the risk for FY15," the broker says. "We view the 124.2 **million** tons of **iron ore** shipments in FY14 as in line with consensus and a slight miss to FMG's guidance of 127 **million** tons." FMG last A\$4.35. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1003 - Australia's central bank is resigned to the fact that the level of the Australian dollar will be largely dictated by the pace of policy change at the U.S. Federal Reserve, says Paul Bloxham, chief economist at HSBC, Australia. Citing an interview with RBA Governor Glenn Stevens by The Australian over the weekend, Bloxham said it was notable that Stevens did not mention the possibility of direct market intervention to weaken the currency. Stevens said markets are underestimating the potential for a big fall in the currency once the Fed starts to raise interest rates. (james.glynn@wsj.com)

1005 - Bank of America Merrill Lynch cuts Perseus (PRU.AU) to Underperform from Neutral on share price strength. It notes that while Perseus is will break-even with spot **gold** price at US\$1,300/ounce, margins are negative after tax rate and corporate administration. "Under our flat **gold** price forecasts over the next two years, we prefer exposure to low cost **gold** producers such as Alacer **Gold** (AQG.AU), the broker says. PRU last at A\$0.53. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1005 - Expectations rise for a strong 4Q14 result from BHP Billiton Ltd. (BHP.AU), which is estimated to have shipped more **iron ore** than expected last quarter based on Port Hedland export numbers. J.P. Morgan analyst Lyndon Fagan estimates the miner shipped at a 246-**million**-ton annualized rate in 4Q14, higher than the bank's 222-**million**-ton estimate and pointing to full-year shipments around 224 **million** tons. BHP previously forecast it would produce 217 **million** tons of **ore** during the 12-month period. "While we need to wait for the quarterly due July 23 for full details, we believe the surprise in volume has been achieved based on quicker than planned ramp up of Jimblebar and low capital intensity port debottlenecking projects yielding successful results," Fagan says in a note. The bank retains a neutral rating, but bumps its price target up to A\$39.00 a share, from A\$38.00. BHP trades up 0.2% at A\$37.64. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1011 - The bigger risk for Australia right now is renewed recession and rising unemployment, not runaway inflation, says Carl Weinberg, chief economist at High Frequency Economics. He cites a number of concerns, including fiscal austerity, which comes to about 1.3% of GDP in 2014-15. Income from commodity exports is also being clobbered by a sharp worsening of the terms of trade in local currency, just as **coal** and **iron** prices have been tumbling. The AUD is also rising year-over-year, choking exports. "We see no case for the Reserve Bank of Australia to raise rates right now, even though CPI increases are rising toward the top of their 2-3% target range," Weinberg says. "If austerity is maintained and the economy slows, below-potential growth will brake price pressures with no help from the bank." (david.winning@wsj.com; @dwinningWSJ)

1025 - Australia has been at the wrong end of the cost curve for **copper mining**, with underground **mining** and wage inflation driving down the competitiveness of the industry, says UBS. Still, some miners stand out as good opportunities for investors. UBS rates Sandfire Resources (SFR.AU) as a buy with a A\$7.70 price target, noting it is producing high-grade **copper** at the Degussa mine. The broker is less keen on OZ Minerals (OZL.AU), rating it a sell with a A\$3.60 target, as it transitions from an open pit at Prominent Hill to a higher cost and potentially marginal underground operation over the coming years. Australia is the world's fifth-largest **copper** producer, but output is set to fall to 770,000 tons in 2017 from 950,000 tons last year. SFR and OZL last traded at A\$6.37 and A\$4.31, respectively. (david.winning@wsj.com; @dwinningWSJ)

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1036 - Former Reserve Bank of Australia Deputy Governor Stephen Grenville weighs in on the debate now raging in Australia over whether the benefits of the country's decade-long **mining**-investment boom were squandered. In an upbeat paper published this month by policy think-tank the Lowy Institute, Grenville says "we didn't blow the opportunity presented" by surging commodity prices. The macro-economic management of the boom, which saw commodity prices hit record levels, driving record **mining** investment, was handled well, he says. Still, with better government policies, "we could have done a lot better." Overall, Australia is well placed to maintain a solid economic performance into the future," Grenville says. (james.glynn@wsj.com)

1042 - Dr. **Copper** is on the mend with signs of strengthening demand, and CIMB thinks the time is right to be increasing exposure in the commodity through buying stock in OZ Minerals (OZL.AU). Themes of low inventories, recovering demand and supply tightness have emerged to drive **copper** back above US\$7,000/ton to four-month highs. "Both OZ Minerals and Sandfire Resources (SFR.AU) will benefit from a strong **copper** price and market outlook," CIMB says. "We do, however, prefer OZ Minerals on a fundamental valuation basis and our view that further positive catalysts remain to be realized over 2014." Potential catalysts include OZ Minerals declaring a dividend, and a **sale** of a **stake** in its Carrapateena project in Australia. SFR and OZL last traded at A\$6.35 and A\$4.31, respectively. (david.winning@wsj.com; @dwinningWSJ)

1049 - Australia's S&P/ASX 200 hits a four-day high of 5512.4, with high-yield equities outperforming after the S&P 500 gains 0.2% and U.S. 10-year bond yields fall two basis points. Among high-yield standouts, the four major banks and Telstra (TLS.AU) are up 0.3%-0.6%. Karoon Gas (KAR.AU) gains 3.1% after refusing to rule out a share buyback after selling gas assets to Origin (ORG.AU). **Iron-ore** miners are lagging, with Fortescue (FMG.AU) down 1.8% after underwhelming 4Q shipping guidance on Friday. CMC Chief Market Analyst Rick Spooner says the market is slowly drifting up as valuations are "about right" and expectations of moderate earnings growth underpin the outlook. Index is last up 0.4% at 5506.4. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1050 - The mystery bidders seeking to gatecrash Horizon **Oil's** (HZN.AU) tieup with Roc **Oil** (ROC.AU) are likely to be international companies that are attracted to Roc's Asian assets and its relationships with national **oil** companies including Petronas, PetroChina (PTR) and Cnooc (CEO), UBS analyst Nik Burns says. Roc has received two non-binding proposals, but has kept the bidders' identities close to its chest. "Roc has technical and operational abilities and relationships with national **oil** companies' that rank beyond the relative size of the **company**," Burns says. UBS rates Roc a buy, with a A\$0.65 target price, noting there could be good news to come including more reserves at its Zhao Dong block offshore **China**. ROC and HZN last traded at A\$0.575 and A\$0.355, respectively. (david.winning@wsj.com; @dwinningWSJ)

1055 - It's been one of the laggards of world commodity markets over the past couple of years, but nickel looks set to be one of the standout performers in FY15, according to Commonwealth Bank of Australia. It expects the industrial metal to gain around 31% over the next 12 months on weaker supply. It expects zinc will also rise strongly, with a forecast 17% lift over the period. Aluminum prices are meanwhile expected to rise much more modestly, as are crude **oil** prices, the bank says. "At the other end of the spectrum, we expect financial-year average prices for **iron ore** to fall the most out of all of our coverage--with a fall of more than 20% factored into our numbers as seaborne supply growth heavily outweighs demand growth," says the bank, which also forecasts a further fall in coking **coal** prices. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1102 - Commonwealth Bank says the Australian dollar's outlook remains positive, with AUD/USD potentially to retest 0.9500 by August. An improving Australian economy, receding fear of a sharp domestic **mining** investment slowdown, stronger foreign purchases of AUD **bonds**, an improving global economy, less downward pressure on Australia's terms of trade, and a softer U.S. dollar are likely to buoy the AUD/USD to 0.9700 by December and 0.9900 by 1Q15, CBA currency strategists say. AUD/USD last 0.9392. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1110 - A rebound in job ad volumes prompts Macquarie to lift its forecasts for Seek (SEK.AU), which it recommends at outperform. It raises its fiscal 2014 EPS estimate by 1.6%, the FY15 estimate by 4.4% and FY16 by 3%. "Separate to this, we expect continued strong momentum at Seek's international businesses and remain positive on the medium-term growth prospects." Macquarie's valuation estimate rises to A\$17.20/share from A\$16.20. SEK is trading up 0.4% at A\$16.53. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1120 - When it comes to acquisitions, there isn't a crowd for Australian law **firm** Shine Corporate (SHJ.AU). Shine raised A\$29.5 **million** to fund the **purchase** of Emanate Legal and Stephen Browne Personal Injury Lawyers, while signaling that another deal is on the cards. Alexandra Clarke, an analyst at Australian broker Morgans, says the announced deals could boost Shine's EPS by around 5% in FY15, and use only two-thirds of the raised capital. A third **acquisition** could happen without the need to

raise further **equity**, Clarke says. "We believe Shine will continue to benefit from a fragmented market and its ability to acquire value enhancing acquisitions," she says. Morgans rates Shine at add and ups its price target 22% to A\$2.60. SHJ last trades at A\$2.30. (david.winning@wsj.com; @dwinningWSJ)

1328 - With a strong line up of movies set to hit screens in 2015, led by proven franchises including The Avengers, Macquarie anticipates solid box office revenue growth for the year and raises Village Roadshow (VRL.AU) to outperform from neutral. Its target price rises to A\$8.50/share from A\$7.60. Macquarie adds the outlook for Village Roadshow's distribution business, which has been under pressure from declining DVD sales, is improving thanks to video-on-demand services and possible steps by the Australian government to crack down on online piracy. VRL is trading up 1.3% at A\$7.61. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1131 - Following comments by Reserve Bank of Australia Governor Glenn Stevens in a weekend interview with The Australian newspaper that interest rates are likely to remain steady for longer, Barclays, Australia, is sticking with its forecast that interest rates will likely rise modestly through 2015 from 2.5% now to 3.5% by year end. Kieran Davies, chief economist at Barclays, Australia, says a recent sharp fall in consumer confidence is the biggest risk to his forecast. Stevens told the Australian it is too early "for people to be contemplating early rises in rates." (james.glynn@wsj.com)

1144 - Australia's S&P/ASX 200 hits a 5-day high of 5517.9 as buyers dominate amid light share trading volumes. With U.S. heavyweights including Citigroup, Goldman Sachs, Johnson & Johnson, J.P. Morgan, Intel and Yahoo! reporting in the next two days, investors appear to be favouring high-yield and safe-haven stocks, with the major banks, Telstra (TLS.AU), Woolworths (WOW.AU), CSL (CSL.AU), Scentre Group (SCG.AU), Amcor (AMC.AU), and Goodman Group (GMG.AU) up 0.6%-1.2%. PanAust (PNA.AU) falls 4.9% amid uncertainty over whether a A\$1.5 **billion** takeover bid from Guangdong Rising Assets Management will proceed. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1145 - After a few weeks of negative data surprises in Australia and a relatively dovish speech by Reserve Bank of Australia Gov. Glenn Stevens, Goldman Sachs Australia says it is holding **firm** to its view that official interest rates will be cut in September. Firmly in the minority among economists in calling a coming rate cut, financial market bets on a rate cut in the second half of 2014 have nevertheless risen over recent weeks. Interest rate futures are currently pricing a 50% probability of an interest rate reduction by November 2014, and a 25% chance by September. One trigger for a near-term cut will emerge soon as the Federal government is expected to soon scrap the country's carbon tax, which Goldman says will see inflation risks retreat. (james.glynn@wsj.com)

1320 - Australian house prices rebounded in the past week, with Sydney prices up 11.5% in annualized trend terms, according to ANZ Bank. "Despite consumer confidence remaining only moderately higher than the recent post-Budget lows, home prices increased strongly in Sydney, Melbourne and Brisbane in the past week," ANZ Senior Property Analyst David Cannington says. Reserve Bank of Australia Governor Glenn Stevens said earlier this month that "investors should take care" in the Sydney property market after a large increase in borrowing and an increase in lending with high loan-to-value ratios in recent quarters. The Governor also said some segments of the housing market appear to have been calming down lately. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1332 - AUD/USD is currently hemmed in as low volatility accentuates the carry trade, while weak economic data is strengthening expectations of another interest rate cut, according to NAB. "The push versus pull of the low volatility, risk-on market against the signs of faltering in the domestic economy--which is allowing the fixed income market to price in easing ahead--means that the Australian dollar is stuck at present levels," NAB's Global Co-Head of FX Strategy, Ray Attrill says. "At current levels of vol, which are historically low, we may need to see a more sustained rise in market risk aversion before it reacts in the typically negative fashion." He recommends shorting AUD/USD on any spike higher. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

(END) Dow Jones Newswires

July 14, 2014 00:58 ET (04:58 GMT)

CO barc : Barclays PLC | bkhlp : BHP Billiton Ltd | cnooc : CNOOC Ltd | bltplc : BHP Billiton PLC | chno : China National Offshore Oil Corporation

IN i1 : Energy | i13 : Crude Oil/Natural Gas | i211 : Metal Ore Mining | i814 : Banking | i81402 : Commercial Banking | ibasicm : Basic Materials/Resources | ibnk : Banking/Credit | ifinal : Financial Services | imet : Mining/Quarrying

NS ecat : Economic News | gpol : Domestic Politics | m11 : Equity Markets | mcat : Commodity/Financial Market News | namt : All Market Talk | nsmcm : Stock Market Commentary | nrmf : Routine Market/Financial News | gcat : Political/General News | gpri : Politics/International Relations | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | niwe : IWE Filter

RE usa : United States | austr : Australia | sydney : Sydney | apacz : Asia Pacific | ausnz : Australia/Oceania
| namz : North America | nswals : New South Wales

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