HD **Weekly Broker Wrap: Commodities And Equities in 2015, Banks and Media**

BY By Greg Peel

WC 1,099 words

PD 19 December 2014

SN FN Arena

SC FNAREN

LA English

LP

Commodities in 2015

After a decade of cost inflation and currency headwinds for the Australian **mining** sector, costs and the Aussie are now starting to follow commodity prices down, Deutsche Bank notes, albeit on a lag. While commodity price falls are hurting higher cost producers, lower cost producers are the greatest beneficiaries of a lower cost curve. The falling **oil** price is contributing to lower costs.

TD

Deutsche expects the Aussie to fall to US70c by 2016. Those **mining** stocks best exposed to the falling Aussie and **oil** price, in the broker's view, are **Alumina** Ltd ((AWC)), OZ Minerals ((OZL)), Rio Tinto ((RIO)), BHP Billiton ((BHP)), Whitehaven **Coal** ((WHC)), Independence Group ((IGO)) and Regis Resources ((RRL)).

The hardest hit commodities in 2014 have been **iron ore**, thermal **coal**, **copper** and **oil**, Deutsche notes. Aside from lower costs and currency, the broker sees 2015 as being a year of **M**&A and asset sales in the sector as the gap between low and high cost producers widen. Price-wise, the bulks should begin to rebalance and base metals strengthen. Deutsche' top sector picks for 2015 are Rio, BHP, **Alumina**, Independence, Sirius Resources ((SIR)), Sandfire Resources ((SFR)) and PanAust ((PNA)).

The broker is bullish base metals but especially nickel, zinc and aluminium/**alumina**. **Copper** will remain in surplus but the impact will be dampened by falling grades in some of the world's biggest mines. Bulk commodities remain in oversupply so market rebalance will take some time.

Morgan Stanley has downgraded its long term commodity price forecasts substantially heading into 2015. **Iron ore** and the coals (thermal and met) see 26-33% reductions while base metal reductions are a more modest 5-12%.

The broker notes that market commentary around commodities, in the wake of 2014's big falls, is "overwhelmingly bearish", with **China**'s moderating demand growth the primary cause of concern. Morgan Stanley nevertheless highlights that relentless supply growth sparked by higher prices in the boom has come home to roost, and once rebalancing starts occurring, opportunities will emerge in commodities markets.

Morgan Stanley likes metals. **China**'s multi-decade, materials-intensive cycle is maturing in a way that requires less bulks and more metals, the broker suggests, and this demand will compete with demand in an improving US economy. The broker prefers nickel, **copper** and zinc.

Equity Strategy

2014 was a year featuring outperformance of defensive stocks in the Australian market, UBS notes, and high-yielding defensives in particular, albeit the banks lagged on capital concerns. Beyond the yield story, foreign currency earners also performed well, with defensive healthcare a particular favourite. Those high yielders have for the most part now run up against the broker's target prices.

Resource sector stocks and resource sector service providers made up 14 of the bottom 20 places, performance wise, for the ASX100 in 2014, UBS notes. No surprise there. But the broker believes 2015 offers better prospects for a price "basing" in base metals and **oil**, particularly if global growth can show some signs of life.

UBS believes Bluescope Steel ((BSL)) and Sims Metal Management ((SGM)) are the best positioned resource-related companies for a turnaround in 2015. Among the yielders, Spark Infrastructure ((SKI)) still offers upside in the broker's view, while Aristocrat Leisure ((ALL)) is offering positive earnings momentum among the foreign currency earners. Among local industrials, UBS believes Crown Resorts ((CWN)) is oversold.

The Banks

It could have been a lot worse, suggests Macquarie, in reference to the Murray Inquiry. The banks copped one specific capital impost in the form of higher mortgage risk weightings but avoided a direct impost on a "too big to fail" (TBTF) basis. However, the more vague recommendation that Australia's big banks should maintain capital ratios within the "top quartile" of international bank ratios creates its own problems.

ANZ Bank ((ANZ)) and Westpac ((WBC)) were the two banks most likely to be hurt if a specific TBTF buffer were applied given Commonwealth Bank ((CBA)) is already well capitalised and National Bank ((NAB)) has the luxury of being able to sell assets. But all the banks will be needing some $6-7bn of additional capital as it is, Macquarie suggests.

The problem with "top quartile" is that it is potentially a moveable feast of a measure, dependent on what the rest of the world's banks are up to. Thus while specific TBTF buffer would have hurt, at least it would be a "known". Macquarie believes the vague "top quartile" guideline will create great uncertainty.

Of course it's all just recommendations at this point.

And it is still uncertain exactly how the regional banks will be impacted, Deutsche Bank suggests. The broker's base case is for a capital benefit to the smaller banks, bringing their return on **equity** measures into line with, or to a premium over, the big banks.

What we do know is that the individual litigation clouds hanging over each of the big two regionals have now parted. The Federal Court has approved a settlement between bank of Queensland ((BOQ)) and investors in Storm Financial and the Victorian Court has approved a settlement between Bendigo & Adelaide Bank ((BEN)) and investors in Great Southern.

Media

Advertising data suggest a flat first half of FY15 to date, with mid-single digit improvement noted in November driven by digital and a lumpy jump in outdoor, JP Morgan notes. Metro TV booking have declined by 4.4%, FY-to-date, and newspaper/magazines have declined by around 10%. Metro radio is up 5.7%.

Traditional media revenue trends remain subdued, JP Morgan suggests, and there remains downside risk to consensus earnings forecasts among stocks in the sector. The broker is Overweight Carsales.com ((CRZ)), Seven West Media ((SWM)) and Prime Media ((PRT)) and Underweight Fairfax Media ((FXJ)) and Ten Network ((TEN)).

RF 949E8E16-DD31-F80B-20D2E6E3D93FA9B2

CO golpla : OZ Minerals Limited | jowell : Regis Resources Limited | whcmpl : Whitehaven Coal Limited | dwitd : Morgan Stanley

IN i83103 : Commodity Contracts Dealing | i831 : Financial Investments | ifinal : Financial Services | iinv : Investing/Securities | i1 : Energy | i111 : Coal Mining | i211 : Metal Ore Mining | i814 : Banking | i83101 : Investment Banking | ibasicm : Basic Materials/Resources | ibnk : Banking/Credit | igoldm : Gold Ore Mining | imet : Mining/Quarrying

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB FN Arena Ltd.

AN Document FNAREN0020141219eacj00003