DOW JONES NEWSWIRES

HD **Aussie Miners Debt Goals Intact Despite Iron Ore's Woe -JPM -- Market Talk**

WC 1,562 words

PD 20 May 2014

ET 09:07

SN Dow Jones Institutional News

SC DJDN

LA English

LP

Contact us in Singapore. 65 64154 140; MarketTalk@dowjones.com

TD

2307 GMT [Dow Jones] Iron-ore prices falling below US$100 a ton for the first time in nearly two years is worrying investors in large-cap Australian miners, but prices will need to fall much further to prevent each company from meeting their debt repayment goals, says J.P.Morgan. Its bull case for iron ore involves annual demand growth of 3%, with iron ore prices holding above US$110/ton until 2016, then US$100/ton to 2018, with a long-term price of US$80/ton. And the bear case? Prices revert to the bank's long-term forecast of US$80/ton by 2016. In that scenario, J.P.Morgan says Fortescue Metals Group (FMG.AU) ranks highest on a FY16 free-cash flow yield, followed by Rio Tinto (RIO) and BHP Billiton (BHP). "Under the bear case the companies could all achieve net debt targets of US$5-5.5 billion for FMG, US$15 billion for RIO, and US$25 billion for BHP on a 2-3 year view," it says. The bank has a neutral rating on BHP, and overweight calls on Rio and Fortescue. (david.winning@wsj.com; @dwinningWSJ)

2304 GMT [Dow Jones] The Nikkei may be in line for a slight rise Tuesday, following four straight days of declines over which the index has surrendered almost 3.0%. U.S. stocks closed modestly higher overnight, while the yen has fallen back from its Monday TSE closing level (now Y101.49), both of which should support buying sentiment, say traders. "As the 14,000 level have proven to be a pretty strong point of baseline support, the Nikkei should benefit from some bargain buying," says Hiroichi Nishi, general manager of equities at SMBC Nikko Securities. "Not all investors have given up hope for 'Abenomics', either, and the Prime Minister's forthcoming 'Third Arrow' structural reform policies. Even though the market is subject to the whims of currency fluctuations, stocks are clearly in the 'buy zone' right now from a fundamental perspective." He puts the Nikkei's range at 14,050 to 14,200. Nikkei 225 June futures ended yesterday's Chicago trading down 45 points at 14,125 vs its close earlier yesterday in Osaka at 14,030. In the cash market, the Nikkei closed down 0.6% at 14,006.44 Monday. (bradford.frischkorn@wsj.com)

2302 [Dow Jones] Credit Suisse lifts ASX (ASX.AU) to Neutral from Underperform following share price underperformance, and upwardly revised earnings estimates from the broker. It estimates ASX is trading on 16.9 times prospective earnings, a 13% premium to the S&P/ASX 200, versus the three-year average of 20%. "In addition to a recovery in core earnings, we estimate that ASX has invested in growth initiatives that could deliver between 3% and 12% in incremental revenue growth over the coming years," Credit Suisse analysts say. Target price increases to A$37.00 from A$35.20. ASX last A$36.02. (david.rogers@wsj.com; Twitter: @DRWSJ)

2300 GMT [Dow Jones] Minutes from the Reserve Bank of Australia's May board meeting will likely be similar in tone and message to May 9's quarterly statement on monetary policy, meaning interest rates should remain on hold at 2.5% for a while, says Carl Weinberg, chief economist at High Frequency Economics. That means the market's focus should be more on Wednesday's wage cost index, as this will test the plausibility of the RBA's forecast for CPI increases within its 2%-3% target. "With unemployment still high by historical norms, we figure wage costs were 2.6% higher than a year ago in the first quarter," Weinberg says. "That would easily be consistent with 2-to-3% year-over-year increases in the CPI." (david.winning@wsj.com; @dwinningWSJ)

17:23 EDT - Wrightson ICAP says that since November, China's Treasury holdings as reported in TIC data have fallen an average $11B after rising an average $11B in the 12 months prior. That's happening even as China's reserves continue to sky-rocket, which begs the question: Is China diversifying its reserves or stashing Treasurys elsewhere? Wrightson points to the simultaneous surge in Belgium's holdings, broadly accepted as a popular custodial destination. "It would not be altogether surprising if, when the new TIC reporting framework [in August] shoved China's monthly Treasury purchases into the spotlight, the Chinese authorities looked for a way to pull them back into the wings." (cynthia.lin@wsj.com; @cynthialin_dj)

16:55 EDT - Citi unit Banamex has lowered its estimate for Mexican economic growth this year from 3.3% to a consensus-matching 3%, citing weakness in 1Q. Banamex predicts 1Q GDP up 2.1% on the year, and 2Q GDP up 2%. "For 2H14 we keep our estimate unchanged at 3.9%, as the economy gains momentum from stronger external demand, public spending and housing construction," the bank says. GDP data for 1Q are due for release Friday. (anthony.harrup@wsj.com)

2045 GMT [Dow Jones] The GlobalDairyTrade auction later in the global trading day is the main event risk for NZD, ANZ Bank says, noting it doesn't expect the RBA minutes to have much impact on the FX markets. It expects the dairy auction to "show stability overall," and says that while skim-milk powder may decline, whole-milk powder prices are expected to offset that. The NZD/USD is at 0.8625 early in New Zealand. ANZ Bank tips a short-term range of 0.8610-0.8680. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

16:44 EDT - San Francisco Fed economist John Krainer finds that while higher mortgage rates likely caused a nationwide slowdown in existing-home sales since mid-2013, the slowdown has been especially pronounced in areas where purchases were driven heavily by investment firms since the crisis. Those types of investors, who tend to buy in distressed markets to convert homes into rental properties, are sensitive to the home price-to-rent ratio. Krainer finds hard-hit cities like Las Vegas and Phoenix have had a harder time with sales in the wake of rising mortgage rates last summer, in contrast to places with low investor-driven activity like Seattle and Boston. (cynthia.lin@wsj.com; @cynthialin_dj)

14:55 EDT - The days of shrinking spreads between safer and riskier euro-zone bond yields are likely over. Capital Economics sees spreads expanding, even if the ECB introduces new liquidity measures. Firm says the widening should come as investors' risk appetite, fueled by diminishing spreads between US Treasury and corporate bonds, wanes as the Fed becomes less accommodative. And while US corporates begin to take the appeal away from peripheral euro bonds, CapEcon also sees euro-zone credit ratings deteriorating due to persistently low growth. Spain's 10-year bond yields 1.68 points above German 10-years, from 1.43 points earlier this month. (cynthia.lin@wsj.com; @cynthialin_dj)

Call us at (212) 416-2181 or john.shipman@dowjones.com

13:54 EDT - One of clearest beneficiaries of Fed stimulus has been stocks, which helped boost wealth. That's created a chorus of critics who say the Fed has been the engine of the imbalance. Speaking in Dallas, Ben Bernanke says the issue is "a little bit exaggerated," although it's true Fed policies have boosted wealth, while incomes have lagged. Still, the Fed has to work with the tools it has, Bernanke says. He adds, "what's the best way to help the average guy in a bad recession? It's to get the labor market working again," and that's what Fed stimulus has done. (michael.derby@wsj.com)

1701 GMT [Dow Jones]--Barclays' economist Giuseppe Maraffino says he now expect the ECB to introduce negative interest rates at its next policy meeting in June, following disappointing inflation and growth data. "We expect the ECB to bring the refi rate to 10bp and the deposit facility rate to -10bp," writes Maraffino. He's less sure about the launch of an asset purchase program. While there's a chance of something limited to support bank lending, it's unlikely there would be anything on a large scale, he says. But because medium- to long-dated inflation expectations are still anchored, "a more gradual approach via rate cuts is the most likely action at this stage," says Maraffino. (chiara.albanese@wsj.com @chiaraalbanese)

12:06 EDT - May 22 marks 1 year since Bernanke brought up the possibility of reducing QE soon, triggering the so-called taper tantrum which reverberated across emerging-market assets. Capital Economic says while those markets have since stabilized, certain developing nations could "quickly come back into the firing line" as attention turns to when the Fed will start hiking rates. It contends most at risk are "serially mismanaged emerging markets" like Argentina and Venezuela and those living beyond their means, including Turkey, South Africa and Indonesia. (cynthia.lin@wsj.com; @cynthialin_dj)

(END) Dow Jones Newswires

May 19, 2014 19:07 ET (23:07 GMT)

CO bkhlp : BHP Billiton Ltd | rtz : Rio Tinto PLC | bltplc : BHP Billiton PLC | craaus : Rio Tinto Ltd

IN i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | imet : Mining/Quarrying | ibasicm : Basic Materials/Resources

NS c1521 : Analyst Comments/Recommendations | ccat : Corporate/Industrial News | ecat : Economic News | mirono : Iron Ore Markets | namt : All Market Talk | ncmac : Commodities Asset Class News | ndjmt : Dow Jones Market Talk | nenac : Energy Asset Class News | neqac : Equities Asset Class News | nfiac : Fixed Income Asset Class News | c15 : Performance | c152 : Earnings Projections | m14 : Commodity Markets | m142 : Metals Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpin : FC&E Industry News Filter

RE austr : Australia | eurz : Europe | uk : United Kingdom | usa : United States | apacz : Asia Pacific | ausnz : Australia/Oceania | eecz : European Union Countries | namz : North America | weurz : Western Europe

PUB Dow Jones & Company, Inc.

AN Document DJDN000020140519ea5j004rc

