DOW JONES NEWSWIRES

HD **Macquarie Upgrades AGL Energy to Neutral -- Market Talk**

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0128 GMT [Dow Jones] The worst could be over for AGL Energy (AGK.AU), which has been suffering from weak conditions in Australian electricity markets, says Macquarie, upgrading its recommendation to neutral from underperform. "AGL continues to face challenges around electricity price recovery," the broker says. "However it is now trading at a 14% discount to our valuation, with possible upside from the sale of its Queensland gas assets." AGL is down 0.1% at A$13.88 vs Macquarie price target of A$13.95. (Ross.Kelly@wsj.com)

Editor: KLH

TD

0116 GMT [Dow Jones] Banks ramped up their lending into China during the first quarter, taking outstanding cross border claims on the country above $1 trillion according to the Bank for International Settlements. Overall lending to emerging markets grew driven by demand in China. "Just as in the preceding several quarters, the main driver of the expansion during the first quarter of 2014 was lending to China, which rose by $133 billion. This took the annual growth rate of claims on China to 49%," the BIS report said. This ramp up in lending may prove a source of concern for foreign banks in coming months if China's economy slows further, pressuring borrowers there and as the U.S. Fed is expected to gradually hike interest rates. (enda.curran@wsj.com; Twitter: @endacurran)

Editor: KLH

0115 GMT [Dow Jones] Hong Kong equities are under pressure ahead of the open after Chinese economic data for August released during the weekend missed estimates, at the start of a week that will bring a Federal Reserve policy meeting and a referendum in Scotland that could see the United Kingdom break up. The Hang Seng Index closed down 2.6% last week at 24,595.32, its worst weekly performance since January after recording six straight days of losses, while index futures are down 0.6% ahead of the market open. China's deceleration in August was "shockingly sharp", says Societe Generale, after retail sales, industrial production and fixed asset investment all miss estimates during August. "The 7.5% GDP growth target for 2014 is now clearly challenged," says Royal Bank of Scotland, cutting its own forecast for China's growth to 7.2% from 7.6%. (gregor.hunter@wsj.com; Twitter: @gregorhunter)

Editor JSM

0112 GMT [Dow Jones] Recent local data and rhetoric from the Reserve Bank reinforces the prospect that rates will remain on hold over the near-term. Yet, the greatest risk posed to the Aussie is not from a shift in RBA policy expectations and a waning of its interest rate advantage, but rather the looming return of general market volatility, said David de Ferranti, market analyst at FXCM. "A persistent surge in expectations for large swings amongst the major currencies would make the Aussie's relatively small yield advantage a much less attractive, and riskier, proposition," he added. The risk is that the door may open to a mass exodus from carry trades that had built on anticipation of a sustained lull in market activity, he said. It will be difficult for the Aussie to recover back above the US$0.9200 level, which is significant from a technical standpoint. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

Editor: KLH

0110 GMT [Dow Jones] The ramifications of a successful Scottish independence vote this week will be huge, not just for Scotland but also for the rest of the United Kingdom, says Stephen Walters, chief economist at JP Morgan, Australia. "Uncertainty will be with us for the next couple of years as the terms of the separation are negotiated," he adds. Every aspect of separation--the monetary regime, the division of assets and liabilities, and Scotland's EU membership--remains unclear, Walters says. "Should it pass, uncertainty would depress growth in the U.K. for a number of quarters, delay the beginning of monetary policy normalization, and depress asset prices including the currency," he says. (james.glynn@wsj.com; Twitter: @JamesGlynnWSJ)

Editor JSM

0103 GMT [Dow Jones] Local data will likely take a back seat to politics in New Zealand this week, with the general election taking place Saturday, says ASB Bank Chief Economist Nick Tuffley. "The result will be the main influence on markets late this week, and early next week. If there's one thing financial markets never like, it is uncertainty," says Tuffley. He said a clear-cut result would have the least impact on the NZD and interest rates. "In contrast, any situation where it is unclear who can or will form the next government would likely weigh on the NZD early next week." (rebecca.howard@wsj.com; Twitter: @FarroHoward)

Editor: MNG

0103 GMT [Dow Jones] Risks remain for PanAust (PNA.AU) investors that Guangdong Rising Assets Management won't formalize its indicative A$2.30/share takeover bid for the **copper**, **gold** and silver miner, says JP Morgan, which keeps a neutral recommendation despite the shares currently trading below the bid price, at A$2.09. PanAust will issue a third-quarter production report next month, by which time it expects discussions with Guangdong Rising or other potential suitors to have advanced significantly. "Whilst not a definitive line in the sand, we believe it is a positive in terms of signaling the process is drawing closer to a definitive conclusion," the broker says. (Ross.Kelly@wsj.com)

Editor JSM

0058 GMT [Dow Jones] The New Zealand economic recovery cycle has peaked and "economic growth will moderate but remain positive," according to the latest consensus forecasts from the NZ Institute of Economic Research. The forecasts are an average compiled from a survey of financial and economy agencies. According to the forecasts, economic growth will moderate from 3.3% in the March 2015 year to 2.9% and 2.2% in the following two years. It will grow 1.9% in 2018. Inflation is tipped to rise from 1.6% in 2015 to 2.2% in 2018--still comfortably within the central bank's 1% to 3% target band. Interest rates "will eventually rise." The floating mortgage rate is currently around 6.75% and could rise to 8.0% by early 2018, according to the consensus forecasts. They also indicated NZD will "gradually ease" from its current highs in 2015 but "the level remains high compared to history." (rebecca.howard@wsj.com; Twitter: @FarroHoward)

0055 GMT [Dow Jones] Australia's S&P/ASX 200 falls 1% to a 5-week low of 5478.2, on track for its biggest fall in 5 weeks, after weak **Chinese** economic data and a further selloff in U.S. **bonds** and equities ahead of Wednesdays' FOMC meeting. "There are hopes of further stimulus by **China**'s Government, but **China** is constrained by a need to rebalance its economy away from property and credit-fuelled growth," CMC chief market strategist Ric Spooner says. "While weaker than expected data from **China** will have investors cautious about resource stocks, a falling A$ could easily see ongoing weakness in the banks as offshore investors head for the exits...there may also be some concern about the implications...for the broader Australian economy." **China** growth concern comes as the market is already suffering from rising U.S. bond yields as QE ends and the Fed moves closer to interest rate hikes. Among high-yield equities, major banks, Telstra (TLS.AU) and Transurban (TCL.AU) fall 0.9%-1.2%. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

Editor: MNG

0005 GMT [Dow Jones] Australia's S&P/ASX 200 remains vulnerable before the FOMC meeting concludes Wednesday, with the S&P 500 down 0.6% on Friday. High-yield equities are likely to stay under pressure after U.S. 10-year bond yields rose 5 basis points to 2.61% as improving U.S. retail sales and consumer confidence fuelled expectations that the Fed could emphasise the strengthening economy, as a precursor to an earlier-than-expected interest rate increase. Materials stocks could also be vulnerable after **China**'s industrial production, retail sales and fixed assets investment data missed expectations over the weekend. Smaller **iron ore mining** companies may be weighed down by expectations of **equity** capital raising, with Arrium (ARI.AU) trading halted before a A$754 **million** raising. However, offshore income earners may outperform after the Australian dollar dived to a 6-month low of 0.9003. Index last 5524.1. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

2341 GMT [Dow Jones] The most contentious issue for markets is the currency arrangement for Scotland if they were to become independent, says Harbour Asset Management in Wellington in a morning report. The latest polls suggest the "yes" campaign is just behind in the polls "creating the real chance of an upset result that ends the United Kingdom's 300 years of political union." It notes GBP would be the first source of volatility on any Scottish news and a "yes" vote "could spark a run on Scottish based banks, as depositors seek to resolve uncertainty by relocating their funds south of the border." This has the "scope to temporarily disrupt the global interbank funding markets." While a surprise win by the "yes" campaign "may trigger an immediate flight to safety and spike in global market volatility, a successful package of transition measures could make this a more manageable wobble for markets," it adds. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

2336 GMT[Dow Jones] Westpac Bank expects New Zealand's 2Q GDP growth to slow to 0.7% after three straight quarters of growth of 1% or more. "High-level economic indicators such as **business** confidence have softened since the start of the year, but only to levels that are more consistent with trend growth," it says. It adds that the softening has largely been in the export-oriented primary sectors with falling **dairy** and log prices prompting a drop in production. On the flip side, growth in domestically-oriented sectors remained robust, it says. The median of a poll of 10 economists is for 2Q GDP to be +0.6% and 3.8% on the year. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

(END) Dow Jones Newswires

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