FINANCIAL REVIEW

SE Market Wrap

HD **Shares recover from low day**

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The Australian sharemarket finished the week barely changed, down 0.1 per cent in spite of featuring the worst one-day fall since September , 2013.

Shares clawed back Tuesday's 1.5 per cent loss, buoyed by renewed interest in **mining** stocks.

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The S&P/ASX 200 Index closed at 5305.9 points on Friday, a fall of 3.2 points or 0.06 per cent for the session.

The benchmark has started the year in subdued fashion and Australian stocks are down 0.9 per cent since the beginning of January.

Paladin **Energy** posted a 25 per cent surge in value in the past five days, making it the best performer in the ASX 200. The miner achieved important debt refinancing on African mines over the period, persuading investors it is better placed to meet its repayments. The stock closed up 7¢ at 56¢.

OZ Minerals was another outperformer, ahead 16.5 per cent. The **company** delivered an upbeat production report which beat expectations and put the squeeze on short sellers who had bet its shares would decline.Sales down

Dragging down the index over the week was Super Retail Group, the operator of Rebel, and Ray's Outdoors, which reported weak sales numbers for the first half including the critical Christmas retail period. The shares slumped 16.7 per cent to close at $10.79.

Fellow consumer discretionary retailer JB Hi-Fi fared little better, down 9.1 per cent for the week.

Widespread selling on the bourse on Tuesday threatened to derail a passive start to the year when stocks shed $24 **billion** because the corporate reporting season in the United States would yield poor results and comments from a Federal Reserve official that alluded to a hawkish outlook for monetary policy.

Anticipating and reacting to the Fed's actions was the dominant driver of global markets in 2013 and this year will likely be no different, said Paul Bloxham, HSBC chief economist.

"I still think the big story for 2014 is going to be watching the Fed, because it has implications for bond markets [and] for **equity** markets for what's happening with currencies," he said.

"We had a practice run at tapering in 2013 and what we saw is it can have some pretty massive implications for a whole set of emerging economies that rely on foreign capital."

Mr Bloxham was referencing the behaviour of markets last May when the Fed dropped its first hint of a reduction in its $US3 trillion-plus ($3.4 trillion) quantitative easing program.

As expectations of a change in policy mounted, markets seized up and foreign capital made a flash exit from developing economies.US dominant

"It's still the case that US financial developments dominate financial markets. I suspect **China** is going to be very much in focus as well, they look as though they're in the process of reforming their economy in a whole range of areas and that will probably be something that financial markets will respond to," he said.

Consumer discretionary stocks were the weakest performing group on the ASX 200 over the past fortnight, shedding 2.5 per cent.

They were among the biggest winners of 2013 when interest rates sat at record lows, and they face the threat of policy tightening in 2014 as economies recover.

On Wednesday the World Bank upgraded its growth outlook for the global economy to 3.2 per cent, up from 2.4 per cent in 2013.

The World Bank too is betting the Fed will continue to unwind its stimulus program over the course of the year.

In the week ahead, the Reserve Bank of Australia will release its December quarter inflation data which could reveal for the first time, evidence that the Australian dollar is pushing up prices in areas such as petrol.

Mr Bloxham also highlighted that fiscal policy will play a greater role in the economy this year.

"One of the key risks to this year is fiscal policy," he said, attributing greater importance to the Federal budget due in May.

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