

**HD MARKET MILDLY LOWER AT MIDDAY**

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The S&P/ASX200 is down 14.3 points to 5504.2 at midday on lightish volume worth \$1.6 billion. There are 361 issues higher and 483 down. The SPI Futures is down 18 points to 5508 on lightish volume of 9536 contracts. Aussie 10 year bond yields are u 2 points to 3.67%. The \$A is at 92.41 US c, down a few from early levels.

\*The banks have contributed 0.8 positive points to the index, insurers have contributed 0.8 positive points, resources have contributed 0.4 negative points, property trusts have contributed 0.7 negative points, retailers have contributed 2.3 negative points and Telstra has contributed 1.7 negative points.

\*The NikkeiDow futures is up 90 points to 15,030 points, Hang Seng futures is u p155 points to 23,065 points, S&P futures is down 1.2 points to 1920.6 points, Nasdaq futures is down 2 points to 3725.50, Dow futures is down 13 points to 16,709 points.

Spot **gold** is up \$1 to \$1245. Crude futures is down 1c to \$102.46.

**China** Official Services PMI rises at fastest pace in six months in May

Reuters reports **China**'s services sector grew at its fastest pace in six months in May as new orders rebounded, an official survey showed, reinforcing hopes that the **Chinese** economy may be steadying after a tumultuous few months.

The official non-manufacturing purchasing managers' index (PMI) climbed to 55.5 from April's 54.8, the National Bureau of Statistics said. That is well above the 50-point level that separates an expansion from a contraction in activity.

In a sign of buoyancy in the sector, new orders rebounded to an eight-month high of 52.7, compared to April's 50.8. Business expectations also held their ground at a solid 60.7, compared to April's 61.5.

Lack of volatility in markets reminiscent of run up to 2007/08 crisis

\*From "The Telegraph" in London, reported in "The Age" today:

A storm alert today from Simon Derrick at the Bank of New York Mellon. He cites three warnings from leading central bankers, all alarmed by the remarkable disregard for risk in the **equity**, credit, and currency markets.

The Bank of England's Deputy Governor Charles Bean says the lack of volatility is "eerily reminiscent" of the run up to the financial crisis in 2007-2008. Investors are turning a blind eye to a large fact: that central banks are intent on extricating themselves from QE and emergency policies come what may, and this is going to be a painful experience.

Italy central bank Governor Ignazio Visco issued a similar warning on Friday: "Volatility on the financial markets in the advanced economies has subsided to well below the historic norm, reaching levels that in the past sometimes preceded rapid changes in the orientation of investors."

In America, Dallas Fed chief Richard Fisher has been warning for several weeks that the decline in the VIX index measuring volatility is an accident waiting to happen. One almost has the impression that he is itching to inflict some "two-risk way" into markets to shatter this complacency.

Mr Derrick says dash for yield is all too like the last stage of the carry trade just before Russia and East Asia blew up in 1998, and again in the summer of 2007 when investors seemed to lose all fear. Both episodes ended with a bang, at first signalled by a surge in the Japanese yen".

\*Our market had already factored in **China's** better than expected official manufacturing PMI number announced on Sunday in trading yesterday, while Europe and the US was still closed for the weekend, with no major news to drive our market higher today.

"Resistance at 5525, support at 5500. Flat day ..given the strong move yesterday"

Ben Faulkner, a senior adviser at Morgans said, "Yesterday the move up in our market showed underlying demand is still strong for high yielding stocks such as the banks and is a positive sign for the strength of the market. Momentum is still elevated and positive.

"The XJO daily chart is still in a moderate uptrend, although totally different to the US in terms of strength, but still trending upwards.

"The 20 day moving average is sitting at 5481 which we tested early in the session yesterday. That remains good support, with the moving average tested and unbroken a good sign yesterday, with the market closing nearly on its highs.

"5550 is still likely to be resistance for the duration of this week. The next level is around 5530. Support for the week is probably at the 20 day moving average of 5480. "Momentum in the US is obviously a lot stronger still and we keep seeing new highs. There was a solid rebound on the Dow from its May lows which again shows the strength in US equities at the moment. Momentum is showing some signs of slowing down, but volatility remains very low. The next level of resistance in the US is 16,900 on the Dow. There will be good support around 16,625.

\*The Shanghai market has seen plenty of press with the **iron ore** price. Surprisingly it has been relatively stable. I think 2000 remains solid support as it has through April and May. It has struggled to break 2055 and is in more of a consolidation pattern at the moment. The 20 day moving average is starting to trend upwards. If it breaks 2055 that will be short term bullish. The next big test is 2080.

\*Comex **copper** in US dollar terms is in an uptrend from its March lows. We have seen \$2.95/lb as good support since March. \$3.18/lb seems to be resistance, support is now at \$3.12/lb. If it does break \$3.18 we could see it back to \$3.25/lb.

"For the day, I expect intra day resistance at 5525, support should be at 5500. I expect a pretty flat day with not much volatility, given the strong move yesterday".

The S&P/ASX200 closed up 26 points to 5518.5 last evening.

## ECO NEWS

### THE ABS REPORTED BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION, AUSTRALIA, MAR 2014:

The current account deficit, seasonally adjusted, fell \$6,034m (52%) to \$5,672m in the March quarter 2014. There was a turnaround of \$4,200m on the balance of goods and services, resulting in a surplus of \$3,591m in the March quarter 2014. The primary income deficit fell \$1,811m (17%) to \$8,781m.

In seasonally adjusted chain volume terms, the surplus on goods and services rose \$5,315m (54%) from \$9,803m in the December quarter 2013 to \$15,118m in the March quarter 2014. This is expected to contribute 1.4 percentage points to growth in the March quarter 2014 volume measure of GDP.

### International Investment Position (IIP)

Australia's net IIP liability position was \$850.4b at 31 March 2014, an increase of \$11.9b on 31 December 2013. Australia's net foreign debt liability decreased \$3.2b to a net liability position of \$855.6b. Australia's net foreign **equity** decreased \$15.1b to a net asset position of \$5.2b at 31 March 2014.

### Retail Trade, Australia, Apr 2014

ABS reports the trend estimate rose 0.4% in April 2014. This follows a rise of 0.4% in March 2014 and a rise of 0.5% in February 2014.

The seasonally adjusted estimate rose 0.2% in April 2014. This follows a rise of 0.1% in March 2014 and a rise of 0.2% in February 2014.

In trend terms, Australian turnover rose 6.0% in April 2014 compared with April 2013.

The following industries rose in trend terms in April 2014: Food retailing (0.3%), Household goods retailing (0.6%), Cafes, restaurants and takeaway food services (0.7%) and Other retailing (0.2%). Department stores was relatively unchanged (0.0%). Clothing, footwear and personal accessory retailing (-0.1%) fell in trend terms in April 2014.

The following states and territories rose in trend terms in April 2014: New South Wales (0.7%), Victoria (0.5%), Queensland (0.2%), Tasmania (0.3%) and the Northern Territory (0.4%). Western Australia (-0.2%), the Australian Capital Territory (-0.7%) and South Australia (-0.1%) fell in trend terms in April 2014

## TOP STOCKS

\*Decmil Group is up 7c to \$1.82 on 430,000 shares on the report below.

\*Origin recovered 7.5c to \$14.62.5 on 1.6m shares after falling 54c yesterday on the **purchase** of Karoon's **stake** in the Browse Basin.

\*Westfield Group is down 9.5c to \$10.67.5 on 1m shares while Westfield Retail is down 1.5c to \$3.22.5 on 1.38m shares, pending its reconvened meeting.

\*Air New Zealand is up 13c to \$2 on 32,203 shares, also yesterday's report.

\*LNG is up another 9c to \$1.34 on 7.1m shares on yesterday's report. .

Among the financials, AMP is up 6.5c to 45.43.5 on 5.8m shares, ANZ is up 13c to \$33.84 on 2m shares, CBA has shed 12c to \$82.14 on 688,249 shares, NAB is down 3c to \$33.85 on 1.18m shares, Westpac is up 2c to \$34.62 on 1m shares.

Among the TMT's Telstra is down 3.5c to \$5.35.5 on 11.8m shares, Telecom NZ is up 1.5c to \$2.47.5 on 650952 shares, SingTel is down 1.5c to \$3.33.5 on 400,519 shares.

Among the resources BHP is down 7.5c to \$36.51.5 on 4.4m shares, RIO is up 64c to \$59.87 on 1.8m shares. Fortescue is down 3.5c to \$4.45.5 on 8m shares. OZL is up 12c to \$4.46 on 930,992 shares. Panoramic is up 1.7c to 68.7c on 741,994 shares, also report below. Iluka is down 2.5c to \$8.705 on 536,212 shares. Atlas is up 2c to 69.7c on 4.6m shares, also presentation below.

Among the oils, Woodside is down 36c to \$42 on 434,454 shares. Santos is down 2c to \$14.46 on 685,306 shares. **Oil** Search is up 1c to \$9.46 on 1.2m shares, Karoon is up 9.5c to \$3.60.5 on 3.7m shares.

Among the golds, Newcrest is down 2c to \$9.76 on 808,393 shares, Northern Star is down .8c to \$1.10.7 on 1.3m shares. Regis is down 6.5c to \$1.42.5 on 2m shares, Kingsgate has shed 1.3c to 71.2c on 538,884 shares. Oceana is up 2c to \$2.51 on 181,433 shares.

## AT THE SMALLER END

\*Growthpoint is down 7.5c to \$2.50.5 on 50,000 shares on the report below.

\*Redflow is up 6c to 24c on 1.29m shares.

## NEWS OF THE DAY

\*Bloomberg reports Glencore Plc, the biggest publicly traded commodities supplier is cutting about 1/5th of full time positions at its Rosh Pinah zinc and **lead** mine in Namibia. Rosh Pinah, an underground mine 800 km south of Namibia's capital Windhoek at the end of 2013 had 600 permanent employees and about 138 contractors and temporary workers.

## LARGE CAP INDUSTRIALS

\*DCG: Secures contracts Main Roads WA, ADF/reiterates strong profit result

Decmil Group Ltd announced it has secured strategic government contracts with Main Roads Western Australia and the Australian Defence Force for a combined value of around \$10 **million**. The civil contract

comes as the **company** continues to diversify and grow its key operating divisions and includes demolishing and replacing an existing bridge in Maylands, Western Australia.

Decmil will also upgrade an Australian Defence Force training facility in Port Hedland, Western Australia including the removal of existing modular units and the installation of new units.

CEO Scott Criddle said in the report the project wins are significant achievements for Decmil as they represent firsts for the **company**.

"Despite a challenging market, Decmil continues to be well placed to deliver a strong result for 2014 and to adapt to the current environment".

\*SEK: Offer for \$US15m Class A shares in Zhaopin/SEK to retain 67.1/67.3%

SEEK Ltd announced Zhaopin Ltd on June 2 has publicly filed an amended registration statement with the US SEC ahead of a planned IPO.

Included in the amended registration statement is an update that a vehicle advised by private **equity firm** Apax Partners has agreed to **purchase** from Zhaopin, currently with and subject to completion of the IPO and certain other conditions, \$US15m Class A ordinary shares in Zhaopin at a price per share equal to the IPO price adjusted to reflect the ADRs to ordinary share ratio in the IPO.

None of the existing shareholders will be selling into the IPO.

SEEK is the majority shareholder in Zhaopin with a 79% **stake** immediately prior to the IPO. Following the IPO SEK will retain a 67.1/67.3% **stake** on an undiluted basis.

#### LARGE CAP RESOURCES

\*AGO: Strong production, fully funded, C1 cash cost \$A49/52 WMT fob

Atlas **Iron** Ltd in a presentation today said in the quarter to May 31 over 2 **million** tonnes of **iron ore** have been shipped with record monthly shipping in May of over 1.25 **million** tonnes. It is targeting the high end of guidance of 10.2/10.7Mt for the year.

The C1 cash cost guidance was reaffirmed, in the range of \$A49/52 WMT fob.

The **company** said the current production rate is 10Mtpa, it is fully funded to 12Mtpa export rate and is targeting 15Mtpa by late 2015 from Horizon 1 assets, aiming for 309/46.5Mtpa.

(No All-in Sustaining cost sighted).

\*PAN: Confirms 2014 production guidance, cash in hand \$67 mln

Panoramic Resources Ltd in its presentation to the CBA conference today confirmed 2014 production guidance, which has increased to 21,500/22,000 tonnes contained nickel.

Liquid assets are up 26% to \$67 **million**.

The **company** outlined positive outlooks for the Savannah and Lanfranchi nickel projects with strong exploration prospects and said a feasibility study is on track for the June quarter for its **gold** projects.

Planning has commenced for **ore** upgrading studies at the Panton PGM project and work has progressed on the partnership strategy for Thunder Bay North.

#### MID TO SMALL INDUSTRIALS

\*GOZ: Buys Paramatta Police HQ for \$241.1m/1 for 9.37 ren rights at \$2.40

Growthpoint Properties Australia announced it has exchanged contracts for the **acquisition** of the NSW Police Headquarters in Parramatta from AustralianSuper for \$241.1 **million**, providing a 2015 yield of 7.65. The property is fully leased to the AAA rated NSW State Government with a significant remaining lease duration of 10 years and a further 5 year option period.

The **acquisition** will be funded by an **equity** raising of \$80/125 **million** and depending on **equity** take-up, \$131/\$176 **million** from expanded existing debt facilities.

A 1 for 9.37 renounceable rights issue at \$2.40 per new GOZ stapled security is on offer, at a 3.9% discount to GOZ's distribution adjusted last closing price on June 2.

Growthpoint's major securityholder Growthpoint Properties Ltd of South Africa has committed to take up its full entitlement under the Rights Offer (approx \$80 mln worth of new stapled securities). The rights offer is not underwritten.

Growthpoint also confirmed full year 2014 distributable earnings of 19c per stapled security.

Distributable income guidance for 2015 is 20.3/20.6c per stapled security and distribution guidance is 19.7c per stapled security.

GOZ added at the offer price the new stapled securities are expected to provide a 2015 dps yield of 8.2%.

\*OZG/WIC/EZL: Ex MLC CEO apptd to planned Westoz Investment Mgt biz

Euroz Ltd announced the planned formation of Westoz Investment Management (WIM) which will be 80% owned by Euroz Ltd and 20% by Steve Tucker, former MLC CEO, who will become Executive Chairman of WIM. In addition Mr Tucker will join the board of Westoz Funds Management Pty Ltd as a non exec director.

Euroz chairman Andrew McKenzie said in the report, "We believe the time is right to expand our funds management capability, which has now been in place for over 9 years.. the Westoz brand is now well recognised, our investment performance has been excellent through some challenging markets and we are exploring the expansion of our product set to provide greater opportunities for access to the wider investment and financial planning community".

\*PIE: AAP endorses Newzulu after recently formed partnership

The board of Pienetwerks Ltd announced it has noted the press release yesterday by AAP publicising their recently announced partnership with Newzulu which conveys their commitment to and enthusiasm for Newzulu's platform.

In the AAP report, AAP also reported that over the New Year period Newzulu had sold a 16 second iPhone video of a helicopter evacuating Michael Schumacher after his skiing accident which sold in excess of Euro 50,000 within hours and continues to sell".

(Also our Week's Special dated May 31. PIE was trading at 15.5c).

#### MID TO SMALL RESOURCES

\*AGD: Acquires 51% of its Chilean **mining** services provider for \$US2.7m +

Austral **Gold** Ltd announced it has acquired a 51% **stake** in a Chilean **mining** services provider Humberto Reyes Arriendo de Maquinarias SpA that has been providing **mining** services to Austral **Gold**'s guanaco operation since 2011.

The transaction gives Austral **Gold** safety improvement opportunities, better cost control and greater flexibility over the Guanaco project. The **purchase** price is approximately \$US2.7 mln to be paid in an upfront payment of \$US450,000 and the remainder in monthly cash instalments over 3 years from existing cash reserves. AGD has the option to acquire the remaining 49% in 2.5 years at a price to be agreed on by both parties.

Austral managing director Stabro Sasaneva also said the **company** is exploring a number of nearby opportunities that may add considerable value to the **company**.

\*MEL: ICAC finds no reason to proceed with enquiry against MEL

Metgasco Ltd announced it has been advised by the Independent commission Against Corruption (ICAC) that it will not be proceeding with an enquiry into the **company**. The advice makes it clear that there was no information in the referral to ICAC indicative of corrupt conduct. (Jun 2)

\*TOU: Good gas pressure build up prior to blocked pump intake at Lesedi CBM

Tlou **Energy** Ltd announced in an update on **operations** at the Lesedi CBM project in Botswana that includes the Lesedi pod and the Selema pod, the Selema production well achieved good gas pressure build up prior to experiencing a blocked pump intake. Remedial work on the well is being carried out and production testing is expected to soon resume;

Pump lift capacity at the Lesedi pod has been upgraded to enhance the dewatering process.

The **company** is encouraged by the gas pressure build up observed at Selema and the high water rates at Lesedi.

\*XAM: Pays first tranche for 90% of Oyut Ulaan Cu/Au project, Mongolia

Xanadu Mines Ltd announced together with its j/v **company** Mongol Metals LLC it has completed the Kharmagtqi transaction with Turquoise Hill Resources Ltd. Mongol Metals has transferred the initial consideration of \$US4 **million** to Turquoise Hill for a 90% **stake** in Oyut Ulaan LLC which owns 100% of the advanced Harmagtai porphyry **copper-gold** exploration project.

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