

HD Australia Shares End up 0.2% After U.S. Bounce

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SYDNEY--Australian shares rose Thursday after minutes from the U.S. Federal Reserve's June meeting reiterated a rise in U.S. interest rates is still likely to occur "a considerable time" after its asset **purchase** program ends in October.

The S&P/ASX 200 closed up 0.2% at 5464.4 with Scentre Group up 3.4% after Bank of America Merrill Lynch rated the shopping-mall owner a Buy and Newcrest up 3.6% after spot **gold** hit a four-month high.

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While the market brushed off weaker-than-expected domestic jobs and **China** trade data the rise was disappointing considering it fell 1.1% on Wednesday.

"It was still quite negative because we were not able to get up much after the S&P 500 rose 0.5% and we fell the most in seven weeks yesterday," Marketmatters.com.au principal Shawn Hickman said. "We are underperforming quite a bit this week."

The Australian market is up just 2.1% this year versus a 6.7% rise in the S&P 500 as **iron-ore** prices fell about 30%, the Australian dollar rose about 5%, **mining** companies cut costs and the government proposed tighter fiscal policy.

Mr. Hickman believed the "yield trade" in equities was losing its appeal as bond yields were likely to rise as the international economy recovered. On the other hand, he said resources stocks looked quite positive on a technical basis.

Credit Suisse reiterated its 6000 year-end call on the S&P/ASX 200 owing to an expected rapid increase in free cash flow as the debt market was providing a very competitive source of capital, it said.

"On current forecasts Australia should have the highest free-cash-flow yield in the world by 2016...while the cost of debt is falling," strategists Hasan Tevfik and Damien Boey said. "This is why the local **equity** market is on the verge of de-equitisation [the reduction of shares via buybacks]...little, if any, net **equity** supply and continued solid demand keeps us positive."

Still, while the market was likely to be supported by lingering demand for high-yielding blue chips on any dips before the August reporting period Australian shares face a flood of shares from initial public offers in August and September, Morgans investment adviser Christopher Macdonald said.

"I can still see a rise to 5800-6000 by year end, but there could be some reweighting to make room for these IPO's," he added. "There will be a correction but I can't see it happening before earnings period. In the meantime decent U.S. earnings could propel the S&P 500 above 2000 and perhaps see our market break up to the 5600s.

Australia's unemployment rate hit an 11-year high of 6.02% versus 5.9% expected by economists for June--although economists were encouraged by a 15,900 rise in employment and a 0.9% rise in average hours worked.

China recorded a US\$31.6 **billion** trade surplus in June versus market expectations of US\$36.9 **billion** as exports rose less than expected in the month.

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