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HD **Bernanke bows out after restoring confidence**

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BEN Bernanke's last meeting as Fed chairman this week will see another $US10 **billion** ($11.5bn) cut from its **bonds** subsidy program and put more pressure on emerging markets adjusting to a new era for the US central bank.

Janet Yellen will take over from Bernanke after this meeting and, with congressional testimony due next month, the Fed has not scheduled any media events to mark her formal ascendancy. Cutting US bond subsidies to $US65bn a month, from $US85bn last year, is meant to drive more demand for the US bond market and support for the US dollar, but after the early scares last year there is no evidence of any major flood of funds into the US in recent weeks.

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Bernanke, like many of his counterparts in other countries, presided over the GFC by failing to raise rates in time, not anticipating the nightmare created by the subprime loans blowout in the US.

If he fell into the same trap as his predecessor at the start of his term, he has ended with the US on the road to recovery.

Still, his successor Yellen faces the toughest task in successfully removing the monetary stimulus without fracturing a tepid global recovery. On paper the quicker it is done the better.

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Extreme liquidity creates distortions, as was seen so clearly pre-crisis and as may become evident soon.

If global regulators think the shock of the GFC will magically reform banking and financial institutions, then they are sadly mistaken because the evidence of any ethical shift is thin on the ground.

Bernanke has increased the accountability and transparency of the Fed and over his two terms has undoubtedly done a good job at a time when other arms of government were impotent. He said at the height of the crisis that the central problem was restoring investor confidence in financial institutions and markets.

With the Dow Jones Industrial Average just 4 per cent below its December all-time high you could argue he has done that. The present volatility should be expected. The VIX volatility index jumped 4.37 points to 18.14 on Friday, its highest level since last October.

After a strong run last year, both the US and Australian markets are obviously under pressure. On UBS figures, the price-earnings multiple for the Australian market rose from 13.2 times this time last year to 14.5 times this year, and the US move was bigger still.

Goldman Sachs, for one, started the year with a forecast 10 per cent slump in the market, marking an official correction, and while arguing the market will finish the year in front, it will clearly be a struggle.

All this explains the increased nerves and volatility ahead of the local profit season, which starts in a couple of weeks.

Today's NAB business confidence index will also be watched locally for any continued fall after the temporary election bounce last year.

Power bid

NSW Treasurer Mike Baird can thank Rod Sims at the Australian Competition & Consumer Commission for delaying its decision on the AGL bid for Macquarie Generation until next week, which will at least ensure some competitive tension.

There are only two bidders left for the asset, which has a book value of $2bn but falling earnings and less than stellar assets, which means a **sale** price well below this level.

Last year's earnings of $191 **million** fell $57m short of the projected $248m and, while the NSW government has declined to update figures for this year, there must be some doubt over the forecast $185m and the 2015 year forecast of $165m. Either way, the trend is clear and it is negative. Brisbane-based ERM will receive the all-clear from Sims this week, but the regulator has delayed its AGL decision until February 5, the same day the bids are due.

ERM argues a fourth player will add more depth and diversity to the market, pointing to the fact that AGL (with Macquarie), **Energy** Australia and Origin control 49 per cent of national generation, 72 per cent in NSW and 95 per cent of retail customers.

As AGL has next to no generation in NSW, it can also expect to get the all clear from the ACCC. On paper, AGL should have no problem getting clearance. But then again, it has had a tortuous past with the ACCC.

From Baird's stance, if the ACCC was to knock out AGL it is far better to do so later rather than sooner given that ERM is the only bidder left standing.

Steel play

THIS week will also determine if BlueScope's Paul O'Malley is successful on part two of a three-part campaign to recreate the old BHP steel as a virtual monopoly producer in Australia.

The ACCC has already approved the **acquisition** of Orrcon from Hills, but has raised doubt over the second leg of the $87.5m Hills deal, the Fielders unit, which buys basic steel from BlueScope and rolls it to make steel frames and the like.

Next month the ACCC will opine on the third leg of BlueScope's consolidation play when it considers its proposal to buy the old OneSteel steel distribution arm.

BlueScope is a deft hand at anti-dumping complaints, which have proved a handy tool in reducing import competition. It has landed in an odd position with its deal with a Finnish producer of quenched and tempered steel.

A key customer, Bisalloy, which makes so-called Bisplate, high-strength light-weight steel, now has a joint venture with **Chinese**-based Jinan **Iron** and Steel, which means it buys less from BlueScope.

The latter has also taken offence to imports from Japan and lodged a dumping complaint.

Big gamble

IN Melbourne, Chris Morris is a vocal opponent of poker machines in pubs so how does he explain last week's decision to spend $70m buying Echo's Townsville casino?

In an interview yesterday, he confided: ``I have argued against poker machines in pubs because I think they are places to go and catch up with friends and it's too tempting. When you go to a casino, you go to gamble.''

That's a fair distinction. Now comes the tough bit -- trying to improve earnings at the venue that will make a forecast $8.8m this year. Morris said: ``We know how to do food and beverage better and that's where we will make the improvement.''

The Computershare founder has turned his hand to pubs big time with his Colonial Leisure group running a string of pubs around the country including headline names like Print Hall in Perth, the

Botanical in Melbourne and the iconic Portsea pub. Echo sold the casino to concentrate on its bigger venues.

Audit rotation

THE self-serving nonsense from CPA boss Alex Malley, published in this paper yesterday, on mandatory audit rotation should not be left untouched.

Malley fears the EU move to enforce mandatory rotation may result in the adoption of the rule in Australia.

The big auditors have long argued against rotation, saying partner rotation ensures a fresh set of eyes without causing undue disruption and bemoaned there are too few big firms capable of handling their work.

One big **company** finance chief once confided he was happy to have E&Y audit his books because it would take a new audit **firm** years to work out what he was up to, which is precisely the point.

Lend Lease put its audit out for tender last year after 55 years of KPMG on the job and not surprisingly only one other **firm** tendered, and KPMG got the job again. But at least the **company** had a look and opened its doors.

The push will come from offshore, not because ASIC follows the overseas fashion trends but because Australian companies wanting to raise money offshore have to play by the local rules.

ASIC has been highly critical of local audit practices but chief Greg Medcraft has yet to follow through on promises to adopt mandatory rotation, where after every seven years a **company** must change audit firms. Just as when the big firms had to hive off insolvency arms, this change will be led from the US and Europe and cannot come more quickly.

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