FINANCIAL REVIEW

SE Market Wrap

HD **Miners weigh down ASX as exports fall**

BY Equities Sally Rose

WC 845 words

PD 8 January 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 22

LA English

LP

The local sharemarket was dragged down by **mining** stocks as new data showed exports of **iron ore** and **coal** to **China** declined.

The benchmark S&P/ASX 200 Index dipped 7.9 points, or 0.2 per cent, on Tuesday to 5317, after a weak **lead** from offshore after major **equity** markets in the United States closed lower.

TD

Investors were cautious ahead of the release of US trade balance data due for release before the Australian market opens on Wednesday. The confirmation of Janet Yellen as the next chairman of the US Federal Reserve – which is considered a positive for markets – was widely expected.

Domestically, Australian Bureau of Statistics data showed the local trade deficit fell to $118 **million**, seasonally adjusted, in November from a revised $358 **million** gap in October.

The result beat consensus economist forecasts for a deficit of $300 **million**. Exports were flat in November, while imports were down 1 per cent.

"The improvement in the trade deficit for November should be viewed as part of an improving trend. The **mining** boom is entering a new phase, where capacity for production and exports is increasing significantly," St George Bank senior economist Hans Kunnen said.

However, the detail of the export data showed the volume of metal **ore** and **coal** exports both fell in November.

On the sharemarket, metals and **mining** was the worst-performing sector, down 1 per cent.

Resources giant BHP Billiton fell 0.9 per cent to $37.21, main rival Rio Tinto dropped 2.6 per cent to $66 while **iron ore** miner Fortescue Metals Group shed 4.7 per cent to $5.44.

Junior **iron ore** miner Atlas **Iron** was the worst-performing stock, down 8.2 per cent at $1.01 as the spot price for **iron ore**, landed in **China**, dipped to $US134.80 a tonne. Mount Gibson **Iron** fell 6.5 per cent at 94¢.

Fund manager MLC Investments has sold off Australian equities, arguing the local market has an unacceptable exposure to the risk of economic shocks from **China**.

"Even if **China** does manage to pull off a rebalancing of its economy from an export to a consumption base with minimal volatility, the good news would still not be great news for Australia because it would mean less demand for our **iron ore** and **coal** exports," MLC head of investments Susan Gosling said.

The big four banks were mixed. Commonwealth Bank added 0.2 per cent to $77.72, ANZ Banking Group fell 0.4 per cent to $31.86, while Westpac and National Australia Bank each dipped 0.1 per cent to $32.08, and $34.50, respectively.a rotation away from some defensive stocks

CIMB equity strategist Shane Lee predicts 2014 "will witness a rotation away from the sort of defensive stocks, such as the big four banks, that have done extremely well through the recovery since the GFC".

The investment bank's equity research house is recommending clients go overweight on big resource producers likely to get a boost from an uptick in the economic growth cycle, such as BHP Billiton, Rio Tinto and Santos, while underweight on defensive names such as the big four banks, Telstra, Woolworths and Wesfarmers.

"Consensus earnings growth expectations for the resources sector is about 18 per cent compared to 5 per cent for the banks, so resources is definitely where you want to be overweight at the moment," Mr Lee said.

"But you don't want to be too underweight the big four banks: while 5 per cent earnings growth is not very exciting there is not much downside risk and they offer attractive yield."

Australia's biggest oil producer, Woodside Petroleum, dipped 0.1 per cent to $37.66. The Leviathan gas venture in Israel, which Woodside Petroleum is negotiating to join, has secured its first sales contract in a $US1.2 billion ($1.3 billion) deal to sell gas to the Palestine Power Generation Company.

Local energy producers were mostly lower on reports that Royal Dutch Shell and BP are considering selling their local refineries and petrol stations, a move that would shake up the $50 billion local petrol industry. Caltex Australia lost 0.6 per cent to $19.36.

However, junior oil and gas companyBuru Energy was the best-performing stock in the ASX 200, climbing 8.8 per cent to $1.98, as Brent crude oil rose to $US107.25 a barrel.

Forge Group dumped 8.1 per cent to $1.31. The embattled resources services company rallied over the previous fortnight as the world's major money manager, BlackRock, built a shareholder stake, but on Monday, BlackRock ceased being a substantial shareholder.

The biggest grocery sellers were mixed as US discount grocery giant Costco announced it will continue its aggressive expansion into the local market. Woolworths dipped 0.1 per cent to $33.76, while Wesfarmers, owner of Coles, edged up 0.1 per cent to $43.67, and wholesaler Metcash was unchanged at $3.10.

CO fed : Federal Reserve Board

IN i211 : Metal Ore Mining | i2111 : Iron Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

NS m11 : Equity Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140107ea1800015

