

FINANCIAL REVIEW

SE Market Wrap
HD Shares fall as Chinese data disappoints
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Local shares had the biggest daily fall in three weeks as data showed the services sectors in Australia and China softened in December.

On Monday, the benchmark S&P/ASX 200 Index fell 25.2 points, or 0.5 per cent, to 5324.9, after taking a mixed lead from the United States on Friday as the Dow Jones Industrial Average finished higher while the S&P 500 closed lower.

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The HSBC China services business activity index posted 50.9 in December, down from 52.5 in November. It was the weakest result in 28 months. However, the HSBC China composite PMI data for December, which covers both manufacturing and services, rose for the fifth successive month.

Major markets around Asia were weaker on Monday afternoon.

Locally, the Australian Industry Group Australian Performance of Services Index slipped 2.8 points to 46.1 in December, indicating the sector is contracting. The index had previously risen for three consecutive months since September, the month of the federal election, reaching a high of 48.9 points in November.

Despite Monday's losses Credit Suisse is forecasting high single-digit gains for the ASX 200 this year. "We are forecasting the local benchmark index to deliver total returns of 9 per cent in 2014 despite a flat outlook for company profits," Credit Suisse equity strategist Hasan Tevfik said. "The macroeconomic and company earnings outlooks for Australia are poor and the consensus among global equity strategists is to be underweight Australian shares.

"But local money will keep pouring into shares because domestic investors like the dividends and, with the returns on cash and bonds so low, they don't have much other choice."

At the local close on Monday, the dollar was buying US89.48¢, down from US89.86¢ at Friday's close.

Credit Suisse has a stock-picking strategy for 2014 to pick companies that have a clear plan to increase cash flow without depending on a lower dollar or improving domestic economy.

"Only lazy managers moan about the strength of the currency. We are cautious on companies that have an assumption about a lower dollar as key to their strategy," Mr Tevfik said. Energy stocks fall on weak oil price outlook

Energy was the worst-performing sector, down 0.9 per cent as oil commodity prices edged higher over the weekend after suffering their biggest weekly fall in 19 months. On Monday the Brent crude oil price was 0.1 per cent higher at \$US107.04 a barrel, however most analysts are tipping oil prices to decline in 2014.

Australia's biggest oil producer, Woodside Petroleum, dropped 1.1 per cent to \$37.70, while Caltex Australia also lost 1.1 per cent to \$19.48. Karoon Gas dropped 5.1 per cent at \$4.13. Progress on the

oil and gas explorer's Grace-1 rig has been delayed after it was evacuated last week due to cyclone Christine. Buru **Energy** bucked the trend, up 2.5 per cent at \$1.82. In late December the junior explorer provided a positive update on its Ungani project.

"One area where we are already seeing free cash-flow generation is among the big **iron ore** miners that have been lowering costs and reducing debt," Mr Tevfik said. On Monday, the big **iron ore** miners were all lower despite the spot price, landed in **China**, holding up at \$US135 a tonne.

BHP Billiton dipped 0.6 per cent to \$37.56, while Rio Tinto fell 0.9 per cent to \$67.75 and Fortescue Metals Group dropped 1.9 per cent to \$5.71. CBA leads the banks

The spot price of **gold** rose for the third session in a row to \$US1239.33 an ounce. Junior goldminer Northern Star Resources was the best-performing stock in the ASX 200, climbing 6 per cent to 89¢. In late December the explorer acquired the Plutonic project from Barrick **Gold** Corp for \$25 **million**.

However Australia's biggest goldminer, Newcrest **Mining**, fell 0.6 per cent to \$8.62; junior **gold** explorer Independence Group was the worst-performing stock, falling 5.4 per cent to 18¢. **Mining** engineering services **company** Cardno dropped 2.3 per cent to \$6.69 after announcing chief Andrew Buckley will retire in March.

The big four banks were mostly lower on Monday. ANZ Banking Group and Westpac each dropped 0.7 per cent to \$31.99 and \$32.12 respectively, while National Australia Bank fell 0.4 per cent to \$34.55. Commonwealth Bank edged up 2¢ to \$77.60.

Telecommunications was the best-performing sector, closing flat as Telstra Corporation was steady at \$5.27.

Commonwealth Property Office Fund was unchanged at \$1.25 as a joint takeover offer from the Canada Pension Plan Investment Board and DEXUS Group officially opened. Shares in DEXUS Group lost 2 per cent to \$1.

Continuing dry conditions in northern Australia are putting pressure on the outlook for food producers. On Monday, GrainCorp shed 0.8 per cent at \$8.51, while Australian Agricultural Co lost 1.2 per cent at \$1.22.

Valence Industries, formerly Strategic Graphite, was flat at 20¢ after making its initial public offer.

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