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HD **Australian Equities Roundup -- Market Talk**

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0821 - A jump in Australia's unemployment rate to 6.4% was a "very big surprise" to Barclays, which had expected a smaller uptick to 6.1% in July from 6% in the previous month. "This large an increase in unemployment is unusual and is normally seen when the economy is either slowing very sharply or in outright recession," Barclays said. "However, it appears to us to be overstated." It notes a third of the rise was due to the rotation of new people into the survey sample. Also, the spike in unemployment is out of line with other economic indicators. "Similar spikes in the past have been associated with large falls in employment, very weak **business** conditions, low consumer sentiment, and falling job ads, which is not the case now," Barclays said. (david.winning@wsj.com; @dwinningWSJ)

TD

0829 - J.P. Morgan keeps its Overweight rating on Crown (CWN.AU), but trims its target price from A$16.65 to A$16.35 after lowering its earnings forecasts following Melco Crown (MPEL) results last week. The broker expects continued weakness in VIP trends for the remainder of the year, a moderation of go-forward mass-market growth assumptions, and labor expense related operating-expense increases, with corresponding effects on EBITDA margins. CWN last A$15.18. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0846 - Credit Suisse upgrades REA **Group** (REA.AU) to Outperform from Neutral after its shares fell 6.9% on Friday on profit taking after a strong FY14 report. The broker lifts its target price to A$49.00 from A$47.50, saying REA still has a significant opportunity to grow its share of overall real-**estate transaction** spending, potentially supporting earnings growth for a number of years. REA last A$42.78. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0942 - **Chinese** power plants and increased industrial power demand led to stronger restocking interest of thermal **coal**, says Australia and New Zealand Banking **Group** in a note. Year-to-date industrial power consumption in **China** is 831.4kWh -- up almost 5% on year. The power sector accounts for 32% of **China**'s total power demand. Newcastle **coal** futures, Asian benchmark, consolidated gains on Friday, finishing the week 2.5% higher. (Mari.iwata@wsj.com)

0944 - The big news from last week is that Australia's unemployment rate now is at a 12-year high of 6.4%, having unexpectedly spiked in last week's employment report for July, says Stephen Walters, chief economist at JPMorgan. He adds that while there were plenty of statistical bogeys that might have been at play, JPM takes the government officials behind the data at their word when they say these had only a marginal influence on the data. "It seems, therefore, that slack is still accumulating," in the job market, Mr. Walters adds. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

0947 - While the Reserve Bank of Australia's quarterly policy statement Monday had a more dovish tone, with growth forecasts revised down, policy makers don't appear to regard the changes as material enough to justify another rate cut, says Shane Oliver, chief economist at AMP Capital. He adds that the improvement in housing indicators, **business** confidence and forward-looking labor market indicators tells us that rates are low enough, but with unemployment still rising, the Australian dollar still strong and uncertainty remaining about the speed of the **mining** investment slowdown, it is hard to justify a hike either, Mr. Oliver adds. The first rate increase is unlikely to come until after the Fed starts to raise rates. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

0950 - Surprise surprise, Treasury **Wine** Estates (TWE.AU) has not one but two private-**equity** takeover bids. After KKR and Rhone Capital raised KKR's initial A$4.70 a share cash offer to A$5.20 last week, TWE says it subsequently received an additional cash offer at A$5.20 from a global private-equity investor who requested its identity remain confidential for now. The competing bidder has been granted due diligence alongside the KKR and Rhone Capital consortium. For months, analysts doubted KKR would follow through with its initial bid. Now they will have to allow for the possibility of an even higher bid emerging. TWE shares are therefore likely to jump to a premium to the existing A$5.20 bids when trade resumes at 0100 GMT today. TWE last A$5.13. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0955 - Australia's S&P/ASX 200 is expected to open up about 0.7% after the S&P 500 surged 1.2% on Friday following news that Russia said it ended military exercises near Ukraine and will "continue to make all efforts for a very fast de-escalation on tensions" with Ukraine. However, follow-through buying may be lacking as investors await further stabilization in global markets. "Overall, I still believe the S&P/ASX 200 will retrace back towards 5350," says marketmatters.com.au principal Shawn Hickman. "My view remains that the majority of the weakness will come from the banking sector which people are overweight hence, pullbacks can be sharp." Focus otherwise will be on earnings reports from JB Hi-Fi (JBH.AU) and Bendigo Bank (BEN.AU), as well as news of another takeover bid for Treasury Wine Estates (TWE.AU) Index last 5435.5. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1007 - The Russian import ban is insignificant in terms of economic impact to Australia and all but irrelevant to New Zealand, says TD Securities Head of Asia Pacific Annette Beacher. "We suspected that Australian and New Zealand trade with Russia was insignificant, but how small even surprised us." Last week Russia ordered a full ban of imports of meat, dairy and vegetables and fruit from Australia, Canada, Europe, the U.S. and Norway and there was some feeling this could benefit NZ. "It has taken years for New Zealand to build up significant trade relations with China, so it is highly unlikely that produce would merely be re-routed to Russia. Furthermore, given the close relations between Australia and New Zealand Australia's stance on Russia is likely to be strongly supported by New Zealand," says Beacher. (lucy.craymer@wsj.com;Twitter: @lucy_craymer james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1009 - J.P. Morgan identifies six malls it reckons Westfield (WFD.AU) will sell to focus on more lucrative developments, together worth US$1.18 billion. These include Mainplace in Los Angeles; Vancouver in Washington; Connecticut Post and Meriden in Connecticut; and Fox Valley and Hawthorn in Illinois. The broker also expects Westfield to earn around US$710 million in development fees by selling 50% stakes in current projects, including the retail wing of the World Trade Centre, under construction in New York, and the Century City mall development in Los Angeles. "Westfield has a high quality portfolio, which will continue to improve through a US$11.8 billion premium mall development pipeline," J.P. Morgan says. It however stays "neutral" on the stock, given a recent price rally. (Ross.Kelly@wsj.com)

1013 - Credit Suisse lifts its 2015-17 earnings forecasts for Fortescue Metals Group Ltd. (FMG.AU) by around 20%, citing expectations of higher received prices and stronger shipping volumes. The broker now estimates underlying net profit of US$2.71 billion in FY14--an increase of 6% on its prior forecast--followed by US$1.51 billion in FY15, US$1.42 billion in FY16 and US$1.83 billion in FY17. "We now see that FMG's 4Q received price was adversely affected by provisional pricing, so the underlying discount was less severe than it initially seemed," Credit Suisse says. "Accordingly, we moderate our forecast quality discount," it says, adding that FMG's FY15 155-160 million ton shipping guidance also appears "readily achievable." It keeps a neutral rating on the stock and a target of A$5.00. FMG trades up 1.8% at A$4.64. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1019 - The U.S. dollar has made an attempted break higher across the board and if the U.S. dollar index manages to gain a stronger foothold at higher levels it should mean the Australian dollar renews and maintains negative momentum, says Emma Lawson, senior FX strategist at National Australia Bank. She adds that if market volatility slips lower again, the Australian dollar is likely to move into a US$0.9400 - US$0.9200 range. AUD/USD is now trading at US$0.9276. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1023 - Australian second-quarter wage price index will be released on Wednesday and RBC Capital Markets expects another quarter of modest wage growth of 0.7%, which would see the annual rate remain at 2.6%. Elsa Lignos, senior currency strategist at RBC said annual wage growth has been running at this subdued pace for the last 12 months and largely underpins the central bank's expectation that core inflation will remain comfortably within the 2% to 3% target range even with a lower Australian dollar. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1028 - Goldman Sachs thinks Australia's largest telecommunications company Telstra (TLS.AU) is likely to provide an update on its capital deployment options when it reports full-year results on Thursday. With around A$4.5 billion in excess free cash flow, Telstra must weigh up M&A opportunities against boosting returns for shareholders via a buyback of its own stock. "We estimate a A$1 billion buyback would be around 0.5-1.0% earnings-per-share accretive," says Goldman, which rates the stock Neutral with a A$4.80 price target. The broker expects Telstra to declare a 10% rise in net profit to A$3.95 billion, and forecasts a final dividend of A$0.15, up from A$0.14 in the prior corresponding period. TLS last trades at A$5.43. (david.winning@wsj.com; @dwinningWSJ)

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1030 - Mount Gibson Iron Ltd.'s (MGX.AU) fat cash balance of around A$520 million will allow the miner to sustain its iron-ore operations through a price trough, but that cash pile will subsequently erode over the next couple of years, says Credit Suisse. "We estimate that positive cash flow from Extension Hill will not make up for negative cash flow from Koolan Island," it says in a note. "On the positive side, cash generation should resume in FY17." Its analysts meanwhile think MGX's Shine project won't be viable as average iron-ore prices slip and will be deferred. Credit Suisse has a neutral rating on stock with a A$0.80 target. MGX trades up 1.4% at A$0.75. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1039 - FXCM currency analyst, David de Ferranti, is bearish on the Aussie this week as it extends declines on the back of broad-based risk aversion and disappointing domestic data last week. he says that if tensions in the Middle East or Ukraine escalate further, the Aussie could face further weakness in the short term. crucially, the Australian dollar is drawing closer to the US$0.9200 handle and if broken, it could set the stage for a sustained decline to the psychologically significant 0.9000 handle. Pair now US$0.9279. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1041 - Credit Suisse estimates Rio Tinto PLC (RIO) can afford to return 12% of its market cap by the end of 2016, assuming the company can tolerate US$20 billion of net debt and iron-ore prices steady around US$90/ton. "Even if iron ore prices fell to US$80/ton, if we are right and Rio can tolerate US$20 billion of net debt, then they could still start a shareholder return program returning 8% of market cap by end 2016," the bank says in a note. Of course, higher iron-ore prices could also result in better-than expected returns. Credit Suisse thinks Rio could return more than 20% of its market cap if the commodity's price rebounded to US$110/ton-plus. RIO trades up 0.6% in Sydney at A$66.84. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1044 - Early signs of a bottom in major equity markets include the rapid deterioration in investor sentiment, which occurred last week despite stronger-than-expected U.S. earnings reports, improving global manufacturing indicators and the lack of any upward spike in U.S. bond rates, according to AMP Capital. "While the correction wasn't surprising, I am amazed by the speed which investor sentiment has turned sour (which is) a good sign from a contrarian point of view," says AMP Capital's head of dynamic asset allocation, Nader Naeimi. "While the U.S. short-term interest rates have moved higher in recent weeks, the move so far has been marginal...interest rates can move sharply higher as expectations for a rise in Fed funds rate gathers steam perhaps triggered by rising inflation, but we are not there yet." (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1103 - Morgans hikes its price target for Rio Tinto PLC (RIO) as it lifts earnings estimates on higher-than-anticipated near-term prices, rising volumes and lower costs. The broker, which reiterates its "add" rating, bumps its target to A$92 a share from A$84 previously. It lifts its FY14 Ebitda forecast 8.0% to US$20.54 billion and its underlying net profit forecast 2.6% to US$10.30 billion. Higher iron-ore production will bolster earnings in 2014-15, it says. It also expects aluminum earnings to expand over the longer run on lower costs and the ramp up of the Kitimat modernization project in Canada. RIO trades up 0.8% in Sydney at A$66.98. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1115 - Macquarie Equities strategists are seeing some positive signs in the early stages of the Aussie earnings period. "Importantly, guidance for most companies has been maintained with relatively few companies providing profit warnings leading to this reporting season," the broker says. "Macquarie's FY15 bottom up EPS growth forecast for All Companies ex-Resources also remains largely unchanged at +11.9% after the first week of reporting season." Index last up 0.6% at 5468.7. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1121 - Macquarie says Amcor's (AMC.AU) diversified geographical footprint helps to insulate it against bubbling issues in Russia and Ukraine. Last week, Russia banned imports of beef, pork, poultry, fish, fruit, vegetables, and dairy products from the U.S., Canada, the E.U., Norway and Australia. Russia's move was a radical response to penalties imposed on Russia over the crisis in Ukraine. "We understand the Russian import ban is on fresh food and not processed food from Europe," Macquarie says. That provides comfort for investors in Amcor, which mainly packages processed food in Europe. Still, there may be some negative impact on products like cheese. "Amcor also has a Russian tobacco packaging and flexible business, which we estimate to be 3-4% of sales, but this serves Russian domestic demand so we see no real change here," says Macquarie, which rates Amcor at outperform with a A$10.95 price target. AMC last traded at A$10.12. (david.winning@wsj.com; @dwinningWSJ)

1128 - An almost 10% rise in Bendigo & Adelaide Bank's (BEN.AU) full-year cash earnings was roughly 3% ahead of consensus expectations, driven by strong revenue growth and despite higher-than-anticipated costs, says Omkar Joshi, investment manager at Watermark Funds Management. The regional bank's bad debt charge for the year through June was marginally higher than the consensus expectation, although Bendigo topped up provisioning in the second half of the year, Joshi says. At the same time, the final dividend is also ahead of expectations, he says. BEN is trading up 1.6% at A$12.38. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1131 - Macquarie reiterates its Neutral rating and A$42.00 target price on REA **Group** (REA.AU), based on its view that a strong growth outlook is already factored into the share price. It says the market appeared to be slightly disappointed with 2H margins, but underlying earnings were solid. REA is up 3.2% at A$44.19. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1133 - Macquarie says **copper** fundamentals are poised to weaken, as the adjusted refined market balance swings to a surplus of 229,000 tons in the six months through December from a 1H deficit of 166,000 tons. Driving this turnaround are higher supply, softer demand in regions including **China** and Europe, and continued outflows from bonded warehouses in the aftermath of the investigation into a suspected loans fraud in the **Chinese** port city of Qingdao. At the close of open-outcry trading on Friday, LME three-month **copper** fell 0.1% on the day at US$6,994/ton. (david.winning@wsj.com; @dwinningWSJ)

1135 - Macquarie sticks with an outperform call on Bendigo & Adelaide Bank (BEN.AU) on the back of strong full-year earnings that were driven by a reasonable margin improvement despite slightly elevated costs. The brokerage says that pleasingly Bendigo's bad and doubtful debts for the year through June were lower that it had forecast. An impairment charge of A$82 **million** for FY14 was below Macquarie's expectation for A$85 **million**. Macquarie has a price target for the bank of A$12.52/share. BEN is up 1.8% at A$12.40, outpacing the wider market. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1137 - Last week's unexpected spike in Australian unemployment to 6.4% in July from 6.0% in June and the downgraded GDP forecasts in the latest central bank policy statement has seen rate cut expectations ratchet back higher to 66% from 23%, says NAB in a note to clients. It adds that in an environment where the Australian dollar is moving lower, albeit still too high for the central bank's comfort, the mostly likely policy course remains a lengthy period of inaction, with any move in the next six months or more likely to be further easing. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1140 - The Australian dollar's break to fresh two-month lows last week will continue to provide a convenient opportunity to **buy** for many of the real money/corporate names who have been patiently waiting for such a move, says Will Richardson, strategist at Macquarie Bank. He adds expect support in the US$0.9200 to US$0.9180 area. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1205 - Citi cuts Crown Resorts (CWN.AU) to Neutral from **Buy** after lowering its Macau earnings forecasts following a slowdown in mass revenue growth in July. "We now forecast Macau gross gaming revenue growth of 4% in 2014 from 11% previously," the broker says. "While the slowdown in mass growth is unexplained, we have taken a conservative outlook for the remainder of the year with 13% growth for 2H 2014 forecast, until new casino capacity is opened in 2015. Despite Melco Crown Entertainment (the **company**'s Macau joint venture) trading at more attractive levels, our conservative Macau forecasts now imply further earnings downside to consensus." Target price falls to A$16.00 from A$17.25. Crown is trading 0.6% lower at A$14.66. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

1211 - UBS upgrades REA **Group** (REA.AU) to **Buy** from Neutral after incorporating 4%-8% upgrades to FY15-FY18 EPS estimates to factor in market-based pricing initiatives, new product initiatives and the **acquisition** of a 17.2% **stake** in IProperty **Group**. "Revised estimates see REA deliver a 27%, 26% and 19% NPAT, EBITDA and Revenue compound annual growth rate in FY14-FY17 with REA's share of **property** advertising spend in Australia lifting from about 40% in FY14 towards 60% by end-FY17," the broker says. REA is up 4% at A$44.51. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

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1324 - Shares in PanAust Ltd. (PNA.AU) should head higher now that its secured Glencore PLC's Frieda River project, says UBS. PanAust says the deal is expected to close on August 25 after conditions on the **transaction** were met. "We subsequently update our PanAust valuation to include a 30% risk-adjusted value of US$240 **million** or A$0.41/share for PanAust's 80% interest" in the project, UBS says. It ups its target to A$2.75 from A$2.47 and keeps a **buy** rating on the stock. "We believe that either the PanAust share price, or the GRAM proposal [to takeover the miner], will soon begin to factor in the improved global sentiment towards **copper** and the recognition of the Frieda River asset ownership," says UBS. Also expects **copper** production at miner's Phu Kham **site** to rise. PNA up 1.1% at A$2.295. (rhiannon.hoyle@wsj.com; Twitter: @RhiannonHoyle)

1334 - Weak job numbers from Australia last week sparked talk that the Reserve Bank of Australia may cut rates. But Paul Bloxham, HSBC's economist in Sydney, says signs of a housing bubble are likely to keep it on hold. While unemployment climbed in July to the highest in 12 years, housing prices have risen 16% in the past two years, HSBC says. "The bar for another RBA rate cut remains very high while the housing market is continuing to boom," says Bloxham. The RBA could cut rates to support growth, but "the cost of this could be excessive risk-taking in the housing market which could eventually threaten financial stability." (wayne.arnold@wsj.com)

1344 - REA **Group**'s (REA.AU) full-year results were broadly in line with consensus market expectations but contained no positive surprises, which Morgan Stanley says it had anticipated after the **company**'s earnings in past years topped expectations. Still, despite being disappointed, the brokerage says an accelerating earnings trend at the online real **estate** website operator supports its positive view of the **company**. It has an overweight stance. REA shares are up 5.7% at A$45.22, outperforming the broader market. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1351 - Australian interest rates will need to remain supportive as the economy transitions from **mining** to non-**mining**, says Citibank, Australia chief economist Paul Brennan. The RBA's period of interest rate stability is in large part governed by a wait for a stronger U.S. dollar and lower Australian dollar, which would encourage non-**mining** businesses to re-engage and this in turn would benefit employment and therefore consumer spending, he adds. "This suggests the cash rate is going nowhere at least until when the Fed signals it is close to raising rates. And the return to more normal interest rate levels could be a slow process," Brennan says. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

1352 - Investors in WorleyParson's (WOR.AU) have a mixed signal from recent earnings results from offshore peers Amec (AMEC.LN) and Foster Wheeler (FWLT). Amec's first-half revenue and EPS were both below consensus expectations, and signs of a slowdown across **oil** and gas markets is negative for WorleyParson, says Deutsche Bank. Offsetting that to some extent, Foster Wheeler's strong second-quarter performance and the outlook for its engineering and construction division is positive for WorleyParson, the brokerage says. It has a **buy** recommendation on WOR and A$19.71/share target. WOR shares are up 0.1% at A$16.97. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

1436 - The Aussie/yen cross reaches a two-day high of 94.86 this morning, extending its rebound from Friday's two-and-a-half month low of 93.88 (near the 200-day moving average), as Tokyo stocks advance strongly on reports of easing tensions in Ukraine and speculation that Japan's Government Pension Investment Fund could raise its domestic stock holding to 20% from the current 12%. Japan's Nikkei Stock Average was recently up 2.13% at 15,093.7. Further upside in the Aussie/yen cross may encounter resistance at the psychological 95.00 line which roughly matches the 50% Fibonacci correction of the 96.17-93.88 July 24-Aug. 8 decline; and then at 95.29 (61.8% Fibonacci correction which is now near the 100-day moving average). Spot AUD/JPY was recently at 94.81. (jerry.tan@wsj.com)

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