

HD Inquiry Poses Challenging Questions for Australian Banks -- Market Talk

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0436 GMT [Dow Jones] The options laid down in an interim report on Australia's financial system raises issues that will be challenging for the country's banks, including possible ring-fencing requirements, the boss of the Australian Bankers' Association says. A government-backed inquiry in its report poses the question of whether there should be mandated structural changes for lenders, separating out retail banking. "This would mean a profound restructure of the industry," says ABA Chief Executive Steven Munchenberg, adding the share of Australian banks' balance sheets used for investment banking is lower than in many other countries. Munchenberg also welcomes a discussion on the notion of "too big to fail," what that means and what is to be done about it. The ABA plans to make further submissions ahead of the inquiry's final report due in November. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

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0422 GMT [Dow Jones] The physical **oil** market remains well supplied but this surplus represents more of a carryover from the second-quarter than an ongoing condition, Tim Evans, an analyst at Citi Futures says in a report. "Traders may have bought too much at higher levels, leaving them vulnerable to a downward correction in valuations, but there is still significant potential for the market to tighten markedly, particularly if **oil** production from southern Iraq is obstructed in our view," he says. Tighter supplies will in turn support **oil** prices. Nymex crude is up 8 cents at \$100.99/bbl, Brent crude is down 15 cents at \$106.83/bbl. (eric.yep@wsj.com)

0409 GMT [Dow Jones] The interim report from the Australian financial system inquiry today has some negative implications for the banking sector, according to Macquarie Equities. "On one hand while direct action on competition appears to have been largely dismissed (lower risk weights for smaller banks and Government residential mortgage-backed securities funding are likely to have little impact), the Murray review appears to have 'gone hard' on 'too big to fail'," the broker says. "In particular it appears that the review will consider additional capital, ring fencing of retail **operations**, greater resolution powers for regulators and the ability to impose losses on creditors in the event of institutional failure for too big to fail firms. All of this is negative for the sector, particularly the last one which could have ratings consequences." The final outcome of the review is due late this year. (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0409 GMT [Dow Jones] The Bank of Japan cut its economic growth forecast for the ongoing financial year ending in March to 1.0% from 1.1%, the third straight downward revision in the figure that was once as high as 1.5%. Although the bank put on a brave face and reaffirmed its rosy inflation outlook, "I think the BOJ's scenario is gradually losing its ground," says Yasunari Ueno, chief market economist at Mizuho Securities. Weaker growth would raise questions about BOJ chief Kuroda's prediction that inflation would accelerate from late this year after a summer bump, Ueno says. If the economy takes shape in line with the BOJ's new forecast, Prime Minister Shinzo Abe's administration could also have trouble raising the sales tax next year, as planned, hindering fiscal overhaul. His cabinet expects a much higher 1.4% expansion for the current financial year. (takashi.nakamichi@wsj.com)

0352 GMT [Dow Jones] Credit Suisse has reduced its perceived risk to NZ electricity generators from a change of government to 40% from 50% as "election polls all now lean towards National incumbent,"

says Credit Suisse research analyst Nevill Gluyas; "While we still expect a tight race, probability favors retention of current government." The opposition Labour and Greens have proposed reforming the sector and introducing a single electricity retailer nationwide, which has caused concern about generator margins going forward. "Poll swings haven't cleanly converted to share price movements, although we are confident that the election probabilities should be major drivers of near-term value movements." Mighty River Power (MRP.NZ) is down 0.4% at NZ\$2.26, Meridian **Energy** (MELCA.NZ) is up 0.4% at NZ\$1.25, Genesis **Energy** (GNE.NZ) is down 0.8% at NZ\$1.795 and Contact **Energy** (CEN.NZ) is flat at NZ\$5.44. (lucy.craymer@wsj.com; Twitter: @lucy_craymer)

0341 GMT [Dow Jones] The Bank of Japan, as expected, kept unchanged Tuesday a consensus inflation forecast originally issued in April with the central bank hitting its 2% inflation target at some point over the next couple of years. But the table with the range of forecasts for the nine policy board members shows the most pessimistic members growing a bit more upbeat--moving a step closer to Gov. Haruhiko Kuroda's outlook. In April, the lowest forecast for the fiscal year ending March 2015 was 0.8%. This week, the lowest forecast was 1.0%. For the following fiscal year, the lowest forecast was 0.7% in April, but rose to 0.9% this week. (jacob.schlesinger@wsj.com)

0340 GMT [Dow Jones] Policymakers spend **billions** of dollars every year to forecast global trends, but just how good is this strategic intelligence? In an independent assessment made public Monday, two Canadian defense scientists examined more than six years worth of intelligence reports used by the Canadian government to anticipate events in Africa and the Middle East. Using outside experts to rate reports, they concluded that the forecasts were highly reliable. In all, experts rated more than 1,500 strategic intelligence forecasts from a division of the Canadian government's strategic intelligence analysis unit, which provides assessments and trends to policymakers. On the whole, the forecasts "warranted tempered optimism," the researchers said. (lee.holtz@wsj.com)

0308 GMT GMT [Dow Jones] The South Korean won will keep rising in 2015--though not as fast as this year--as the country continues to post a trade surplus, says Barclays. "We think the Korean won will continue to strengthen, but at a slower and less volatile pace than we have seen year to date. Given that the current account surplus looks to be structural, further appreciation of the Korean won looks unavoidable to us," says Barclays. South Korea posted a trade surplus of \$5.454 **billion** in June, a 29th straight month in the black, on brisk exports. The won has gained about 3% against the dollar so far this year. (kwanwoo.jun@wsj.com)

0307 GMT [Dow Jones] **China's** June credit growth is stronger than expected--pointing to government easing supporting sluggish economic growth, HSBC economist Ma Xiaoping says. The higher-than-expected bank-lending data in June was a result of central bank monetary-policy easing including cuts in bank reserve-requirement ratio allowing them to lend more, Ma says. Financial institutions issued 1.08 trillion yuan (\$174 **billion**) in new yuan loans in June--up from 870.8 **billion** yuan in May. Total social financing, a broader measure of credit in the economy, was 1.97 trillion yuan in June--up from 1.40 trillion yuan in May. (grace.zhu@dowjones.com)

0305 GMT [Dow Jones] Australia's S&P/ASX 200 falls 0.2% to 5500, reversing a 0.4% intraday rise to a seven-week high of 5536.2. ANZ (ANZ.AU) slips 1.3% and CBA (CBA.AU) and Westpac (WBC.AU) fall 0.5% after an interim report by a government-backed Australian financial system inquiry raises concerns about mortgage risk weights and capital adequacy for systemically important banks. "They are just overbought because everyone's long the carry trade, so it doesn't take much bad news to knock them over," says marketmatters.com.au principal Shawn Hickman. He also notes that Wesfarmers' (WES.AU) Coles supermarkets has partnered with GE Capital to take on the big four banks by offering customers loans and other personal financial products. "Overall it's just an excuse to take profits," Hickman says. "I'm not saying the bank carry trade is over, it's just very mature." (david.rogers@wsj.com; Twitter: @DavidRogersWSJ)

0303 GMT [Dow Jones] The Nikkei is up 0.8% at 15416.66 midday on slightly elevated volume, as overseas investors are seen bidding up blue-chip shares following better-than-expected earnings from the likes of Citigroup (C) overnight. "Moderate overseas buying in core Topix names is helping to push blue chips higher," says an **equity** trading director at a European brokerage, noting Japan Tobacco's (2914.TO) 1.5% rise to Y3,796, NTT's (9432.TO) 0.8% gain to Y6,780 and MUFG's (8306.TO) 1.5% rise to Y609. The Nomura TOPIX Core 30 Exchange Traded Fund (1311.TO) is up 0.9%. Meanwhile, non-bank lenders and real estate shares are also higher, with Credit Saison (8253.TO) up 2.1% at Y2,145 and Mitsui Fudosan (8801.TO) up 2.6% at Y3,449. (bradford.frischkorn@wsj.com)

0301 GMT [Dow Jones] The yuan falls tracking weakness in the offshore yuan. The USD/CNY pair is at 6.2106 compared with 6.2059 at Monday's close. In the offshore yuan market in **Hong Kong**, where the **Chinese** currency floats freely, the dollar is at 6.2128 compared with 6.2071 yuan late Monday. "The pair broke the major resistance level that has capped it for days which will open upside space in the near term," a Shanghai-based foreign bank trader says. The central parity is set at 6.1490 compared with

6.1485 Monday. Offshore, one-year USD/CNY NDFs are up at 6.2615/6.2635 from 6.2555/6.2590 late Monday. (wynne.wang@dowjones.com)

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