

HD MARKET EXPECTED TO CLOSE SHARPLY LOWER

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WC 1,882 words

PD 27 January 2014

SN OzEquities News Bites

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The S&P/ASX200 is likely to close sharply lower today.

Europe closed mostly lower, the UK was down, the US markets fell.

On the NYSE where 3215 issues traded there were 819 issues higher, 2,322 down and 74 unchanged. On Nasdaq where 2704 issues traded there were 599 issues higher, 2,035 down and 70 unchanged.

Metals were weaker, crude fell, **gold** was down. The \$A is at 87.46US c.

"Down 65 points .. we prosper (with) emerging markets and go down with them"

"Maree" said, "Emerging market currencies have been absolutely thumped, and their current accounts will blow out further. It's a catch 22 for them. Both Latin America and the Asian region are suffering, there is a lot of stress on government balance sheets.

"We prosper when the emerging markets prosper and we go down with them, as happened in the late 1990's.

"Some of our banks are heavily exposed to Asia.

"**China** is also a concern. It does not seem all is well with Australia's major trading partner.

"From a currency point of view, our Triple A status is attracting some funds.

"I will call our market down 65 points today"

The S&P/ASX200 closed down 22.1 points to 5240.9 last Friday.

January 28. Good morning.

*Emerging market currencies continued to fall yesterday.

The Rand fell last night to its lowest ever against the US dollar.

*Yesterday Asian stocks fell the most in seven months and the South Korean won weakened. **Gold** rose yesterday (but fell from its recent highs last night).

*The net notional amount of credit default swaps outstanding on **China** sovereign debt rose to \$9.125 **billion** on January 17, the most since November 2012 according to data published by Depository Trust & Clearing Corp, Bloomberg reported yesterday.

* **China Coal Energy** Co, the nation's second largest **coal** producer fell 5.2% in **Hong Kong** yesterday after saying 2013 profit probably fell as much as 65%. Japanese exporters also fell.

*GCL-Poly **Energy** Holdings Ltd, the world's biggest polysilicon maker fell the most in 7 months in **Hong Kong** trading yesterday after **China**, the world's biggest **solar** market said it plans to add 10 gigawatts of **solar** power in 2014, the same as last year's target, according to a National **Energy** Administration statement posted on January 24, vs 14 gigawatts reported earlier by state television.

***China** based Yingli Green **Energy** Holding Co fell 8.2% in ADR form on January 24 after the announcement.

Aussie stocks

All dollars in this section are Aussie dollars - the rises and falls are against the previous close.

Aussie stocks in ADR form were lower. AWC fell 3c on 750,000 shares, RIO fell 7p on 4.6m shares, BHP fell 83c on 5.36m shares, News fell 38c on 3m shares, FOX fell 52c on 3.3m shares, Westpac fell 39c on 135,000 shares, Telstra fell 3c on 500,000 shares.

PSivida rose 1c on 16.8m shares. Prana fell 31c on 187,000 shares.

In London Anglo American fell 20.5p to 1,319.5p on 5.5m shares, Aquarius fell 0.5p to 38.25p on 200,327 shares, BskyB rose 6p to 858p on 4.8m shares, BHP fell 11.5p to 1,780p on 8.69m shares, Henderson fell 1.4p to 218.3p on 1.3m shares, RIO fell 3p to 3,140p on 5.1m shares.

Trading points:

*SVW: Seven Group is likely to benefit from Caterpillar's strong quarterly and lift in guidance, below.

Ex div : DJW ex 10c; OZG ex .8c; WIC ex .5c.

Changes in substantials reported January 22, 23 and 24 inc posted separately.

Overseas

The DJIA closed down 41.23 points to 15,837.88.

S&P 500 fell 8.73 points to 1781.56.

NASDAQ was down 44.56 points to 4083.61.

US 10yr bond yields rose 5 points to 2.77%.

The US\$ rose 30 points to 102.63 Yen.

The Euro fell 1 point to 1.3675US c.

The Yuan rose 6 points to 6.0483/\$US1.

FTSE 100 fell 113.08 points to 6550.66. Most European markets closed lower.

The Nikkei Dow last evening fell 385.83 points to 15,005.73.

Shanghai SE Comp IX closed down 21.09 points to 2033.30.

Commodities

All dollars in this section are US dollars

In dollars per tonne for three month metal, (LME stockpiles are on a closing basis) - valued against yesterday morning's price, measured over 24 hours.

Copper fell \$30 to \$7,150/fell \$97 to \$A8175. Stockpiles fell 1,575 tonnes to 325,400 tonnes.

Aluminium was down \$6 to \$1,755/fell \$22 to \$A2007. Stockpiles fell 7,050 tonnes to 5,445,400 tonnes.

Nickel fell \$335 to \$14,150/fell \$509 to \$A16,179. Stockpiles rose 192 tonnes to 264,090 tonnes.

Zinc fell \$10 to \$2,010/fell \$29 to \$A2298. Stockpiles fell 4,750 tonnes to 869,075 tonnes.

Lead fell \$24 to \$2,143/fell 446 to \$A2450. Stockpiles rose 2,100 tonnes to 209,675 tonnes.

Tin fell \$150 to \$21,850/fell \$363 to \$A24,983. Stockpiles fell 35 tonnes to 9,065 tonnes.

Iron Ore N/a as yet.

Steel billet was indicated at \$360/370.

Cobalt was indicated at \$28,000/28,500.

Molybdenum was indicated at 421,800/22,800.

WTI crude fell 92c to \$95.72/fell \$1.89 to \$A109.44.

Brent Crude fell \$1.19 to \$106.69/fell \$2.30 to \$A121.99.

Spot **gold** fell \$14 to \$1,255/fell \$27.04 to \$A1435. Spot silver fell 29c to \$19.62/fell 50c to \$A22.43. Spot platinum fell \$16 to \$1,410/fell \$31 to \$A1612. Spot palladium fell \$12 to \$723/fell \$20 to \$A827.

Overseas eco news

In US eco news, new home sales fell 7% in December the Commerce Department reported to a seasonally adjusted annual rate of 414,000 units. November sales were revised to a 445,000 unit pace vs 464,000 reported earlier. New home sales were up 4.5% on December 2012.

For all of 2013 a total of 428,000 single family homes were sold, the most since 2008, and a 16.4% increase from 2012. For all of 2013 the median new home price was \$265,800, the highest on record.

*In Germany the IFO said its business climate index rose to 110.6 in January, vs 110 expected and up from 109.5 in December. The number was the highest for 30 months.

Overseas **equity** news

*In the US of the Dow 30 there were 14 stocks higher and 16 down.

Caterpillar led the way up, gaining \$4.66 or 5.41% to \$90.83 after eps came in at \$US1.54 vs \$US1.27 per share expected. The **company's** 4th quarter revenue totalled \$US14.4 **billion** vs forecasts for \$US3.65 **billion**. Caterpillar also lifted guidance and announced a new \$US10 **billion** buyback.

United Technologies followed, up \$2.31 or 2.07% to \$114.11 with Merck next.

Microsoft fell furthest, shedding 71c or 1.94% to \$36.09 followed by Visa and Goldman Sachs.

Google announced it has acquired UK artificial intelligence **firm** Deepmind Technologies. The shares fell 2%.

Twitter fell \$3.83 or 6.2% to \$57.91 and shed a further 56c after hours.

*In Europe national benchmark indexes fell in 17 of the 18 western European markets and 17 out of 19 industry groups on the Stoxx 600 fell. **Oil** and gas companies and telephone shares led the losses, falling at least 1.5% each.

BNP Paribas rose 1.6%, Soc Generale rose 1.4%, Intesa Sanpaolo in Italy rose 1.2%.

Lanxess rose 8.2% to Euro 48.72 after Merck finance chief Matthias Zachert was named its new CEO. Merck shares fell 10% to Euro 119.3. Banco Popolare fell 15% to Euro 1.29 for the biggest plunge since December 2008 after saying last week it will make an issue of shares worth up to Euro 1.5 **billion**.

Ziggo fell 2.9% to Euro 32.30 after Liberty Global Plc, controlled by **billionaire** John Malone agreed to take over Ziggo, the Dutch broadband provider for Euro 4.9 **billion**. Ericsson rose 2.3% to SKr76.80 after settling the patent dispute with Samsung, with both companies to license each others patents.

*In the UK BG Group fell 14% to 1,082p, its biggest drop since at least 1988 after saying reduced liquefied natural gas shipments from Egypt and US forward gas prices will hurt profit. Total earnings for 2013 will be \$2.2 **billion** or 65c a share with production in the year ahead to be 590,000.639,000 barrels a day vs 633,000 barrels a day last year. BG announced force majeure notices under its LNG agreements in Egypt.

Royal Bank of Scotland fell 2.2% to 332.2p after setting aside 3.1 billion pounds to cover the cost of lawsuits tied to mortgage backed securities and redress for clients wrongly sold swaps and payment protection insurance.

Vodafone fell 3.9% to 223.6p after AT&T said it had no intention of making an offer for the UK telco. Also The Times reported Vodafone had approached the private **equity** owners of Spanish broadband operator ONO about a potential 7 **billion** pound offer.

In other news

Implications of currency flight for the emerging economies

Handelsblatt (Google translation)

In the worst case, the World Bank estimated inflows into the emerging markets could fall by 80% within a few months, although this is not the most likely scenario, Handelsblatt reported.

Handelsblatt added, the focus of the world economy has shifted.

Earlier Europe and the US were in sharp decline and emerging economies such as Turkey, **China** and Brazil were booming.

To stop the economic decline monetary authorities of developed countries took unprecedented measures, lowering interest rates beyond recognition and pumping staggering sums of money into the economy.

The Federal Reserve used more than three trillion dollars in the **purchase** of government **bonds** and real estate securities.

"Investors accepted the invitation. They speculated with the cheap money" preferring countries where risks and returns were high. Part of the money went directly into the emerging markets, where interest rates were much higher.

An estimated \$4 trillion flowed into emerging markets since 2009, Handelsblatt reported.

While the end of printing money is not yet in sight, the signal is clear: The Fed wants to say goodbye gradually ultra-loose monetary policy. This in turn would result in rising interest rates. For investors, it would be more attractive to reclaim their money from emerging markets.

How dangerous a sudden capital flight could be are clear from the Asian crisis in 1998 and the rouble crisis of 1999.

However, "What we have not seen in emerging markets is a major currency devaluation, a run on government **bonds** or rating downgrades," John Bilton, European investment strategist at Bank of AmericaMerrill Lynch said. So long as that does not happen, funds in emerging markets are not losers.

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