FINANCIAL REVIEW

SE Market Wrap

HD **Rebound as US fears allayed**

BY Equities Max Mason
WC 774 words
PD 16 January 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 22
LA English

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After its worst trading day since September, the Australian sharemarket has clawed back some lost ground, as fears about the health of the United States economy subside.

The benchmark S&P/ASX200 Index rose 33.4 points, or 0.6 per cent, to close at 5245.4 on Wednesday, marking just the third winning session for the year. The broader All Ordinaries Index added 35.7 points, or 0.7 per cent to finish the day at 5255.5.

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Overnight on Tuesday, US stocks recovered many of the losses from the previous trading session, with concerns over US growth eased by strong December retail sales figures. The Nasdaq jumped 1.7 per cent, the S&P500 gained 1.1 per cent, and the Dow Jones Industrial Average added 0.7 per cent.

"You get weak numbers like [Friday's employment figures] that maintain the case for QE [quantitative easing] and people start worrying about growth," Tribeca senior fund manager Sean Fenton said. "You saw that sell-off after a great run through 2013, with big multiple expansion, the market is really looking for a little bit more earnings growth to drive through in 2014."

The biggest driver for Australian shares now is the currency, Mr Fenton said, with a falling Aussie providing an earnings boost to miners who report in US dollars, as well as easing pressure on importers. "While earnings continue to be downgraded, it's important to remember that this is actually quite normal," Deutsche Bank strategist Tim Baker said. "The market has seen net downgrades 75 per cent of the time over the past 25 years."

"The important development in the past six months is that the rate of downgrades has been quite mild, and no worse than average. In fact, the current pace of earnings downgrades has historically been consistent with solid earnings growth," Mr Baker said.

The world's largest money manager BlackRock reported it was no longer a substantial shareholder in BHP Billiton, reducing its local **stake** to 4.9 per cent, although it is still the miner's largest shareholder and has maintained its 10.1 per cent **stake** in the **company**'s London listing. BHP shares slipped 0.6 per cent to $35.93.

Fortescue Metals announced it will repay $US1.6 **billion** ($1.79 **billion**) of debt, continuing its efforts to strengthen its balance sheet. Since November last year, the **iron ore** miner has reduced debt by $3.07 **billion** through the voluntary redemption of senior unsecured **bonds** due in 2015 and 2016. Fortescue shares rose 3.5 per cent to $5.33, with investors rewarding the **company**'s financial diligence.

Rio Tinto also picked up some ground, adding 1.4 per cent to $64.24, with analysts speculating the miner's **iron ore** production may have risen more than expected. The **company** is due to update the market on Thursday with its December quarter **operations** review.

"The big miners are fair candidates to outperform the market this year, with a weaker currency, and **China** not doing anything fantastic, but not collapsing as some people fear, and the **iron ore** price staying above $US100 per tonne through the year," Mr Fenton said.

Australia's banks shook off a report from rating agency Fitch that warned profits for the big four could begin to feel the squeeze from the downturn in the Australian economy. The report said household leverage remained high, leaving bank assets vulnerable to an increase in unemployment.

Shares in National Australia Bank rose 0.8 per cent to $33.83, while Commonwealth Bank gained 0.5 per cent to $76.19. Westpac and ANZ pushed up 0.6 per cent to $31.71 and 30.97 respectively.

Cash holdings reported by OZ Minerals fell, but not as far as expected, to $363 **million**, but most analysts had expected the balance to slip to somewhere near $250 **million**. OZ Minerals shares finished the day 14 per cent higher at $3.50, becoming the biggest gainer on the ASX200 for the day.

Shares in Brickworks rose 1.4 per cent to $14.28, following a further postponement of its general meeting until April 10. Shareholders will now have to wait three months to decide on the proposed $2 **billion** break-up plan put forward by Mark Carnegie and Perpetual head of equities Matt Williams.Market darling Xero added 7.7 per cent to $39.74, as the accounting software **firm** hired Victoria Crone as the new managing director of its New Zealand business. Last year, Xero shares surged more than 400 per cent.

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AN Document AFNR000020140115ea1g0000h

