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HD **Rio, BHP have Midas touch as iron ore continues to fall**

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Confidence in the ability of global central bank stimulus to keep **equity** prices levitating saw the Australian sharemarket shrug off tumbling **iron ore** prices and the US dollar-driven rout in currency and commodity markets.

On Thursday night, **equity** markets received a surprise shot in the arm after the European Central Bank monetary policy statement said there was “unanimous” board member support to use “unconventional instruments within its mandate” to counter prolonged low inflation “should it become necessary”.

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The news, coming just a week after the Bank of Japan’s expanded quantitative easing program, gave fresh impetus to the reversal of global currency flows towards the recently reviled US dollar following the end of US Federal Reserve bond-buying stimulus.

The S&P-ASX 200 index climbed 43 points, or 0.78 per cent, to 5549.1 on volume 25 per cent above average as **mining** giants BHP Billiton and Rio Tinto continued to defy the nosedive in **iron ore** prices that has dragged their higher-cost rivals down in its wake.

The two large-cap miners were also likely supported by strategist reports the Japanese Government Pension Investment Fund would diversify about $220 **billion** of its holdings away from Japanese **bonds** to “liquid” foreign equities over the next two to three years.

Spot **iron ore** fell 1.3 per cent to a five-year low of $US75.40 a tonne on Thursday and Dalian **iron ore** futures were up 0.2 per cent yesterday.

Gold dropped $US9 to a four-year low of $US1133 an ounce and Brent crude **oil** lost 0.6 per cent to $US82.40 a barrel.

The Australian dollar fell US0.8¢ to a four-year low of US85.40¢ as the euro dropped and the US dollar resumed its rally following solid US data. Government 10-year yields jumped 10.7 points to 3.354 per cent.

“Much of the rise in the US dollar to date reflects weaker trends in the yen and euro, some swooning emerging market currencies — the Russian rouble and Brazilian real — and weaker growth outcomes in **China** holding back commodity currencies,” Royal Bank of Scotland currency strategist Greg Gibbs said. “The market is in tune with a better-performing US economy, but it is yet to buy into a sustained upbeat outlook that brings forward Fed policy tightening.”

US weekly jobless claims dropped to 278,000, one of the lowest readings this century, while the average was at 2005 levels.

But National Australia Bank global head of currency strategy Ray Attrill noted the US unemployment rate was 4 per cent back then, compared with the current 5.9 per cent. Benchmark US 10-year yields remained unconvinced on the growth outlook, rising 3 points to 2.386 per cent.

The Shanghai composite index reversed a one per cent gain to close 0.4 per cent down after the People's Bank of China confirmed rumours last month it had injected ¥770 billion ($140 billion) into the country's major banks.

Explaining fading growth indicators, the PBOC statement said the funding was mostly to offset declining foreign capital and exporter capital inflows.

"It shows the central bank is very reluctant to loosen monetary policy, but it has to reduce financing costs for end borrowers," Minsheng Securities chief macro-economic researcher Guan Qingyou told Bloomberg.

In Tokyo, the Nikkei index climbed 0.5 per cent as the yen hit a fresh seven-year low.

CO fed : Federal Reserve Board | bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

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