

HD JPM Still Saying Aussie Rates Will Rise 4Q15 -- Market Talk

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2220 GMT [Dow Jones] Despite growing concerns about plunging commodity prices affecting Australia's economic outlook, JP Morgan says in a strategy note they still expect the central bank to hold the line on rates in 2015, resisting pressure to cut further. JPM still sees a rate hike at the end of 2015, but "the lower commodity prices go, and the larger the income compression and damage done to the real economy and to sentiment, which plunged this week, the closer the RBA rate call becomes," it said. It would take more than an expectation of falling export prices to trigger further easing, particularly given a constructive global outlook, JPM said. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

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10:20 p.m. GMT [Dow Jones] Foster Stockbroking initiates coverage of Kula Gold (KGD.AU) at **buy** with a A\$0.34/share price target, saying the **company's** fully permitted Woodlark Island project in Papua New Guinea and its exploration potential make it an attractive takeover target. This valuation, based on a long-term gold price of US\$1,320/oz, reflects three possible scenarios: a mine producing 1.8 **million** tons of raw ore for nine years; a mine running for 13 years; and phased construction of a mine producing 4 **million** tons of raw ore annually. Foster's valuation of net present value includes a 25%-35% discount to account for financing and exploration risk for each scenario. KGD last traded at A\$0.04. (david.winning@wsj.com; @dwinningWSJ)

2218 GMT [Dow Jones] Softer-than-expected inflation and falling **dairy** incomes "are likely to take a bite out of the Treasury's tax revenue forecasts" and this could see the projected balance for the year to June 2015 slip into deficit, says Westpac Bank. Treasury is due to present updated forecasts Tuesday at the half-year fiscal and economic update. If the books now show a deficit "it would likely be as economically insignificant as the previously forecast surplus was." It noted the pre-election fiscal update in August forecast a narrow budget surplus of NZ\$297 **million** for the year to June 2015. Westpac says its unusual for the government to announce any changes in spending in the half-year update but there may be an increase in the bond program, to reflect smaller projected surpluses in later years. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

10:16 p.m. GMT [Dow Jones] J.P. Morgan upgrades Alumina Ltd. (AWC.AU) to overweight from neutral, and raises its target price by 18% to A\$2.00/share, citing positive earnings momentum on the back of lower energy costs, a falling Australian dollar and a well-supported alumina price backdrop. "In our view, Alumina is one of the few resource stocks in an earnings upgrade cycle," the broker says. **China** has been using up stockpiles of bauxite following Indonesia's ban on ore exports, and this should support demand and pricing for Alumina's output. J.P. Morgan forecasts a doubling of EBITDA margins for Alcoa World Alumina, a JV with Alcoa (AA), to over US\$100/ton in 2015. The broker also expects Alumina to restart dividend payments, anticipating nearly a 9% yield in 2015/16. AWC recently traded at A\$1.64. (david.winning@wsj.com; @dwinningWSJ)

2216 GMT [Dow Jones] The bad news just keeps on coming for the Australian economy with JP Morgan downgrading its forecast for the price of iron ore in 2015 by a massive 24% to US\$67 per ton. Iron ore is easily the country's biggest export and has fallen 50% this year. The resulting fall in Australia's terms of trade will exacerbate what many economists are already referring to as an "income recession" in Australia. The probable impacts on the real economy include slower hiring, higher unemployment, and lower GDP growth, reflecting softer consumer spending and **business** investment, in particular, it said. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

2213 GMT [Dow Jones] Australian government economic forecasts will be revised Monday alongside news of an expected sharp deterioration in the budget bottom line. NAB economists said in a strategy note that the economic forecasts are likely to be more market sensitive than the fiscal outlook, and will likely strengthen the case for a cut in interest rates next year. The governments forecast for terms of trade and domestic demand will likely be cut, NAB said. That will "keep the door open to further monetary easing in 2015, should the RBA **board** take that decision," it said. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

10:11 p.m. GMT [Dow Jones] Softer than expected inflation and falling **dairy** incomes "are likely to take a bite out of the Treasury's tax revenue forecasts" and this could see the projected balance for the year to June 2015 slip into deficit, says Westpac Bank. Treasury is due to present updated forecasts Tuesday at the half-year fiscal and economic update. If the books now show a deficit "it would likely be as economically insignificant as the previously forecast surplus was." It noted the pre-election fiscal update in August forecast a narrow budget surplus of NZ\$297 **million** for the year to June 2015. Westpac says it is unusual for the government to announce any changes in spending in the half-year update but there may be an increase in the bond program, to reflect smaller projected surpluses in later years. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

10:08 p.m. GMT [Dow Jones] Australian Treasurer Joe Hockey is expected to announce a sharp deterioration in the government's budget bottom line in a midyear review of the budget later today. Tumbling commodity prices, a weak job market, and obstructionist politics in the Senate will underpin what is expected to be a severe change in the budget outlook. Still, Hockey has indicated he'll allow the budget to be a shock absorber for the economy, and does not intend to announce substantial spending offsets or new taxes. The budget deterioration comes at a moment of weakness for Australia with economic growth in the third quarter much slower than expected, upward pressure on employment and falling **business** and consumer confidence. RBA **board** member John Edwards said last week economic growth will be too slow in 2015 to prevent higher unemployment. The government had been forecasting a budget deficit of A\$29.8 **billion** in 2014-15. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

2122 GMT [Dow Jones] Asian stock markets may get a lift after Japanese Prime Minister Shinzo Abe looks to have scored a decisive win in Sunday's parliamentary election but sentiment will be weighed by the ongoing slide in oil prices, says Macquarie Equities Investment Advisor Brad Gordon. U.S. stocks closed Friday with their biggest weekly decline in years, as the sustained drop in oil prices revived growth concerns. "The oil price coming off has unsettled markets," says Gordon. He notes, however, the weaker oil prices is a positive for manufacturing and retail and "when it settles we should see some stability coming back into the market." The NZX-50 is down 0.6% at 5480.164, tracking offshore leads. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

2107 GMT [Dow Jones] The NZ 2-year to 10-year curve ended last week at 40 basis points, which is likely close to the cyclical trough on this curve and BNZ "would expect corporate paying to be enticed out to the longer-end of the curve at these levels," says BNZ strategist Kymberly Martin in a note. She says short-end yields are unlikely to push much higher through 1H as the RBNZ remains firmly on hold. Martin adds U.S. 10-year yields drifted down to end the week at 2.08%, while German equivalents also fell to new historic lows of 0.62%; "Expect this to add flattening pressure on the NZ curve at the open this week." (lucy.craymer@wsj.com; Twitter: @lucy_craymer)

2046 GMT [Dow Jones] Regardless of **business** size or type, there is a broad expectation from New Zealand businesses that the NZD will continue to ease, and will be near 0.736 by the end of next year, says ASB chief economist Nick Tuffley following the release of the ASB Kiwi Dollar Barometer; "We also expect the NZD will fall further and reach 0.73 by the end of 2015." He adds the barometer shows despite expectations of further depreciation in the NZD, importers have pared back hedging plans. "It might be the case that many importers were caught out by the sudden depreciation in the NZD, and are now hoping for some rebound which will allow them to hedge at more attractive levels than seen recently," Tuffley says. He adds there was greater interest to hedge amongst exporters; "The recent depreciation in the NZD provided an opportunity for exporters to hedge at better levels." The ASB Kiwi Dollar Barometer tracks exporters' and importers' exposures to foreign exchange risk, through surveying businesses with annual turnover of at least NZ\$1 **million**. (lucy.craymer@wsj.com; Twitter: @lucy_craymer)

2044 GMT [Dow Jones] NZD/AUD "has edged back from its challenge of the 0.95 figure, but remains within striking distance," says BNZ FX Strategist Raiko Shareef. The pair is at 0.9425 early in New Zealand. With the AUD likely to remain under pressure as commodity prices decline, "we would not rule out a break above that level, though we would expect it to be relatively short-lived," he says. He picks a return toward 0.91 early in the new year. On the day, markets will be watching for Australia's Mid-Year Economic and Fiscal Outlook "in which the government is expected to paint a gloomy fiscal outlook." (rebecca.howard@wsj.com; Twitter: @FarroHoward)

(END) Dow Jones Newswires

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