

**HD MARKET TALK: Australia's Smaller Iron-Ore Producers Fully Valued: UBS**
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Australia's smaller producers of iron ore look fully valued, says UBS, as an around 40% fall in iron-ore prices since January push them near levels where they would struggle to turn a profit. UBS says Atlas Iron (AGO.AU) and Grange Resources (GRR.AU) are each trading at levels that imply an iron-ore price of US\$77/ton, including shipping costs. However, UBS thinks Grange needs a price of US\$78/ton and Atlas requires US\$79/ton to break even. Mount Gibson (MGX.AU) must achieve an even-higher price of US\$89/ton to remain profitable, but its stock is implying it only needs a lower price of US\$75/ton, UBS says. "We believe the new entrants that have entered the market on the assumption that prices would average US\$90/ton cost-and-freight or better will now need to dig deep to find a way to survive in a lower price environment," UBS says. (david.winning@wsj.com; @dwinningWSJ)

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2312 GMT [Dow Jones] Any benefit to Australia's retail sector from a falling Australian dollar will be modest and likely will be more than offset by the stiff headwinds still facing the Australian consumer, says J.P. Morgan in a research note. The job market has softened over the past year, with the unemployment rate currently tracking at a cycle high of 6.1%, it says. It expects the jobless rate to continue drifting higher in coming quarters, consistent with subtrend domestic demand growth. "We expect this confluence of factors to continue to weigh on household consumption in coming quarters, imposing a speed limit on growth in the retail sector," it said. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

[Dow Jones]USD/JPY is likely to trade with a bullish bias Monday, supported by yen-funded carry trades amid positive investor risk appetite. Daily chart is positive-biased as stochastics bullish; MACD staging bullish crossover against its exponential moving average; five-day moving average above 15-day MA and advancing. Resistance is at 108.38 (this morning high); a breach would expose upside to 108.74 (Oct. 8 high), then to 109.25 (Oct. 7 high). Support is at 107.77 (Friday's low); a breach would tilt near-term view negative, exposing downside to 107.10 (Thursday's low), then to 106.78 (Wednesday's low). Spot USD/JPY is at 108.17. (jerry.tan@wsj.com)

Asset sales, manufacturing closures, redundancies, offshoring production and a sell down in inventory are all combining to make FY15 a complicated year on the earnings front for household fittings supplier GWA **Group** (GWA.AU), says UBS. The broker thinks concerns raised by Australia's competition regulator over GWA's proposed **sale** of its Dux hot water division to Rheem Australia may cloud the outlook around the **sale** price. UBS values Dux and another business--Bravis (Heating & Cooling)--at A\$61 million combined. "While momentum in the **residential** market is yet to be fully reflected in GWA's volumes, uncertainty around FY15 earnings and execution of restructuring initiatives will likely constrain near-term share price performance," UBS says. It retains a neutral call, and A\$2.55 price target. GWA last traded at A\$2.76. (david.winning@wsj.com; @dwinningWSJ)

[Dow Jones] Macquarie retains an underperform rating on Port of Tauranga (POT.NZ) "as we can't get close to the current share price on our valuation," it says. The stock closed Friday at NZ\$16.30 and Macquarie has a 12-month target price of NZ\$14.50. It also noted that "nearer term, forestry export growth is slowing and competition in the North and South **Island** port sectors seems to be building again as shipping companies once again press for efficiencies and sharper port pricing." (rebecca.howard@wsj.com; Twitter: @FarroHoward)

[Dow Jones] With Australia's central bank continuing to indicate that it and the bank regulator will soon announce new clamps to stem a rush of investor lending for mortgages, a close watch will be kept on

comments later today by one of its top officials. Luci Ellis, the head of financial stability at the RBA will participate in panel discussion at a housing conference. The extent to which the regulators embrace these new lending clamps will have an impact on interest rate expectations going forward. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

After raising its earnings forecasts for Qantas (QAN.AU), UBS shifts to a **buy** recommendation from neutral and a price target of A\$2/share from A\$1.50. The brokerage's EPS forecast doubles to A\$0.10 from A\$0.05 for fiscal 2015, rises by 33% to A\$0.25 for FY16 and by 26% to A\$0.27 for FY17. QAN shares have retraced about two-third of the gains made since its results last August despite what UBS says is evidence of positive earnings momentum. At the same time, jet fuel in AUD has fallen 10% and the airline has confirmed a recovery in the domestic market is well under way. UBS says it also expects rival Virgin Australia (VAH.AU) is under increasing pressure to improve profitability. QAN last traded at A\$1.425. (robb.stewart@wsj.com; Twitter: @RobbMStewart)

Macquarie cuts its price target for Gryphon Minerals (GRY.AU) by 42% to A\$0.15/share. It notes a recent steep fall in Gryphon's stock means management will likely have to issue new shares at a lower price to fund the equity component of developing its Banfora gold project in Burkina Faso. Macquarie also pushes out the likely start date for development of Banfora by six months to mid-2015. "We still believe Banfora is an achievable project although we acknowledge it is marginal at the current gold price," says the broker, which retains an outperform call on the stock. GRY last traded at A\$0.094. (david.winning@wsj.com; @dwinningWSJ)

2250 GMT [Dow Jones] Australian interest-rate markets will continue to trade at the mercy of offshore events this week, with little economic news or events out locally, says CBA in a strategy note. "We expect a mild recovery in yields (higher) this week, but highlight the significant risk of a rally around the Fed meeting," it said. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

[Dow Jones] The Australian dollar has shrugged off weekend comments by Song Guoqing, and academic member of the PBOC's monetary policy advisory committee, that **China**'s economy should slow to 7.2% year-on-year in 4Q from 7.3% in 3Q, but expand by 7.3% in 2015, says CBA in a strategy note. "We maintain there are downside risks to **China**'s GDP growth amid the authority's crackdown on corruption and pollution," CBA said. However, Australia's exports to **China** should continue to make new record highs, continuing the trend of recent years, as higher grade Australian commodity exports and new capacity come on-stream, it adds. "We see some modest upside risks to the Australian dollar this week, generated by some softness in the U.S. dollar and some tapering of global growth concerns as global equity markets continue to recover," it said. The Aussie should lift to 0.8864 from US\$0.8800 now.

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[Dow Jones] New Zealand's central bank was already expected to be on hold for a "sustained period" before last week's CPI result "but another very low inflation reading raises the question of whether a deeper reappraisal is required by the central bank," says J.P.. Morgan. This week's rate review does not include forecasts but only a short statement which "is a blessing, in that it gives (RBNZ Governor) Wheeler flexibility," it says. He can "acknowledge that inflation is undershooting, and can state in a roundabout way that this has implications for the rate path, without having to explicitly back down on the view that further rate hikes are coming in 2015." Rather than using the statement to reset the policy bias it should "use it as another opportunity to slug NZD," it says. (rebecca.howard@wsj.com; Twitter: @FarroHoward)

[Dow Jones] The Federal Open Market Committee meeting Wednesday is set to be the defining event of the week. This is well expected to be the meeting where quantitative easing ends, leaving the focus on any adjustments to the forward guidance language and potential views on the European economy, says RBC Capital Markets in a strategy note. "We expect the Fed to err on the side of caution, which means on forward guidance, changes should be minimal, and the key 'considerable time' phrase will likely be kept," RBC said in a strategy note. (james.glynn@wsj.com; Twitter @JamesGlynnWSJ)

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