Good news looks fully priced

Report Justin Bailey

The sharemarket fell from an 11-month high on Friday as investors booked profits after a run of strong gains.

The S&P/ASX 200 lost 21.7 points to 4693.2, falling from the week's high of 4714.9. The broader All Ordinaries fell 20.3 points to 4693.7.

Despite Friday's retreat, shares gained 2.1 per cent for the week. Since its five-year low in March, the sharemarket is up almost 50 per cent.

Royal Bank of Scotland equity strategist Greg Goodsell said investors had every reason to snap up equities over the week.

"It gets more and more compelling for investors who haven't fully invested to get invested because the market is looking strong," he said.

But Mr Goodsell said the market would need to see company earnings rise before equities pushed much higher.

"The key issue is what's going to drive growth from here? And at this stage it's still unclear."

The Australian dollar, which reached a 13-month high point of US87.76¢ in the week, eased off on Friday to US86.9¢.

In regional markets, Japan's Nikkei fell 73.3 points to 10370.5. Hong Kong's Hang Seng was down 145 points at 21,623 and China's Shanghai Composite slid 97.6 points to 2962.7

A steady flow of upbeat economic news characterised the week and contributed to gains.

United States Federal Reserve chairman Ben Bernanke said in the week that the US recession was "very likely over", while stressing recovery would be slow.

Investors snapped up cyclical stocks as they prepared for impending recovery, but they were late to the party, according to Mr Goodsell.

Shares are trading on an average multiple of 15.5 times earnings, making it hard to get "excited" about buying equities as they no longer look cheap.

The S&P/ASX 200's historical price-earnings ratio usually hovers close to 14 times earnings.

Consumer discretionary stocks surged 2.9 per cent in the week as Harvey Norman lifted 7.2 per cent, JB Hi-Fi added 1.5 per cent, and David Jones put on 5.9 per cent.

But there was a reversal of form on Friday as Harvey Norman fell 7¢ to $4.30 and JB Hi-Fi slid 32¢ to $18.37. David Jones stood out, adding 12¢ to $5.68.

The industrial sector is going from strength to strength as investors ploughed into stocks like Boral and Fletcher Building, but they steered clear of James Hardie.

The sector is up 71 per cent since the market low on March 6 and gained 2.2 per cent through the week. Boral ended 4.2 per cent higher, Fletcher Building 3.4 per cent, while James Hardie lost 0.9 per cent.

In Friday trading Fletcher retreated 4¢ to $6.79, Boral added 5¢ to $6.20, and James Hardie gained 1¢ to $7.33.

After rising to their highest levels in a year earlier in the week, the major banks contributed a fair chunk to Friday's down leg. Australia and New Zealand Banking Group fell 4¢ to $22.89. Commonwealth Bank of Australia lost 20¢ to $49.09, National Australia Bank slid 15¢ to $29.40 and Westpac Banking Corp retreated 17¢ to $24.70.

The major miners ended lower: BHP Billiton lost 89¢ to $38.70 and Rio Tinto fell 50¢ to $61.

Gold stocks retreated as the precious metal price eased to $US1012, after climbing above $US1024 on Thursday. Lihir Gold lost 11¢ to $3.07 while Newcrest Mining shed 97¢ to end at $34.25.

Crude oil inched up 0.4 per cent in the week and was $US72.20 a barrel in late Asian trade.

Oil Search lost 8¢ to $6.41 and Santos gained 6¢ to $15.53. Woodside Petroleum fell 95¢, or 1.8 per cent, to $50.65. The stock surged earlier in the week after the company discovered oil off the coast of Sierra Leone.

Fairfax Media closed down 0.5¢ to $1.715 after deputy chairman Roger Corbett said in a statement that independent directors Robert Savage, Peter Young, Julia King and David Evans unanimously supported the chairman, Ron Walker.

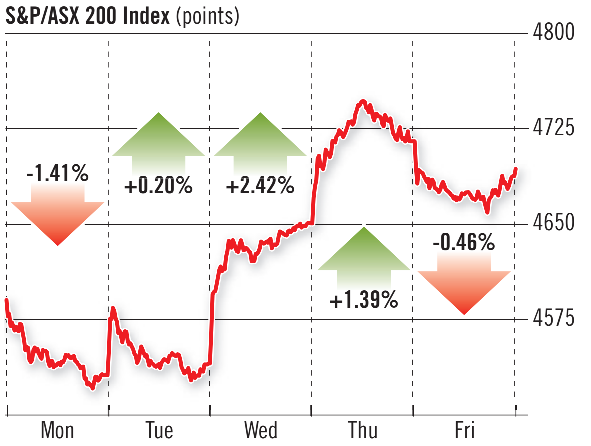
On Thursday fellow board member John B. Fairfax issued a statement saying he could not support Mr Walker as chairman.

Telstra was down 1¢ to $3.25 and fell 2 per cent over the week after the federal government said it wanted the company to be split.

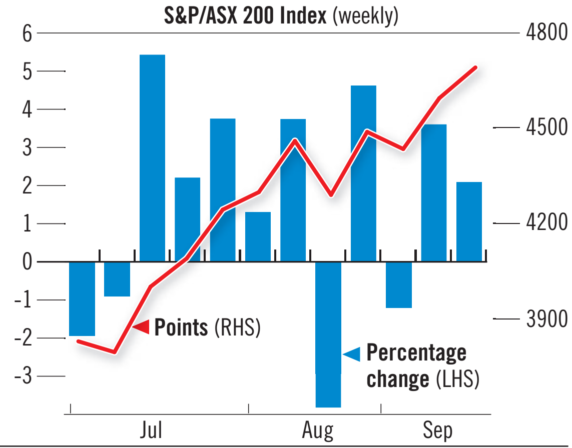
S&P/ASX 200 stocks and sectors during the past week

Best stocks	Change (%)	Worst stocks	Change (%)	Best sector returns	Change (%)
Gunns	18.7	Eircom	-59.2	Financials	3.1
Macquarie Media	16.6	Riversdale	-9.1	Consumer discretionary	2.9
Carnarvon	16.5	Nufarm	-7.2	Utilities	2.8
Lynas	15.5	Dominion Mining	-6.4	Consumer staples	2.3
Molopo Australia	13.3	Commonwealth Office	-6.1	Industrials	2.2

S&P/ASX 200 Index (points)



S&P/ASX 200 Index (weekly)



SOURCE: BLOOMBERG

THE BELLRINGER TOLLS

The analyst known as the bellringer is warning that the equities market is poised for a top and may start falling again.

David Hunt, of market training firm Adest, who called the bottom of the equities market a week and a half before it hit its low in March, says the S&P/ASX 200 must now convincingly break above 4800 or be in danger.

Mr Hunt earned his nickname by calling the end of the bull market in October 2007. He said in January the index would rally 50 per cent to 4800 from March to September before falling.

The S&P/ASX 200 reached a high of 4749 on Thursday, just shy of the target.

"If it can't break 4800 by about October 3 at the latest, it is in trouble," said Mr Hunt, who teaches market strategies.

"In fact, there's a strong chance that this week will mark the high."

In the past week he has told clients that "the current price action is smelling terminal".

He is seeing signs of panic buying from remorseful investors and fund managers who missed the rally.

"When the last bull who missed the boat through reluctance finally buys in, prices have to fall," he said.

"I suspect the 50 per cent rise in stock prices over the past six months is not the next bull market. Past markets after disastrous falls have taken longer to reach final lows."

He warned shares could tumble below the five-year low point of 3145 struck in March.

"Next year I expect the market to retest the lows of early this year and get as low as 2900.

"The next buying opportunity is likely to be this November, when the market should turn up and show strength from then until April, when it will strike trouble.

"Then it will be down again until the end of 2010 before hitting its cyclical low."

David Coe

Speculators push gold to the brink of record high

Report Stephen Wyatt
Shanghai

The gold price hit its second-highest level this week of just over $US1024 an ounce, and many gold traders expect it to test the record high of $US1034 hit in March 2008.

If that level is breached, it is blue sky for gold, traders believe.

"A close above the all-time high would be a major development, opening the way for the medium-term target of $US1300," said Tom Fitzpatrick, chief technical analyst at CitiFX.

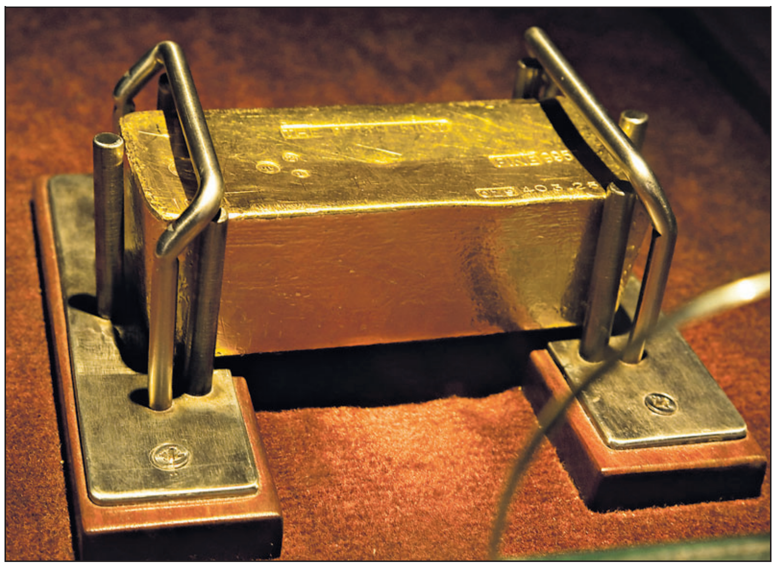
Gold traded at $US1012 an ounce in Asia on Friday, easing from a high of $US1024.28 on Thursday.

Australian gold stocks have soared on the back of the gold price rise, with shares in Newcrest Mining rising 20 per cent this month and Lihir Gold almost 30 per cent.

But concerns are building that speculative interest in the gold market may be overextended.

Speculative buying has been the primary driver of the gold market rally.

This buying has been driven by fear, a rising unease in markets that a strong economic recovery may not be around the corner as so many investors have been expecting.



All that glisters . . . demand from jewellery makers is low. Photo Bloomberg

Gold is also seen as a hedge against a potential increase in inflation as government deficits balloon around the world and also as a hedge against a further slump in the US dollar.

Money has especially flowed into gold exchange-traded funds.

UBS estimates that gold held by the nine physically backed ETFs that it monitors hit the record high this week.

ETFs have the sixth-largest holdings of gold in the world after those of central banks in the United States, Germany, France, Italy and the International Monetary Fund.

Some analysts and traders expect a price correction. Even gold bull Phillip Klapwijk, executive chairman of United Kingdom-based metals research group GFMS, said that given gold's "shaky" foundation built on the heavy speculative buying, "the recent spike could readily unwind".

However, Mr Klapwijk favoured gold moving higher longer term "mainly because we see it as highly likely that debt monetisation and ultra-low interest rates, especially in the US, will at some point feed through to build in inflationary pressures".

"Throw in [US] dollar weakness and disappointment over conventional assets as the green-shoot argument withers, and then gold well over $US1000 becomes perfectly feasible," Mr Klapwijk said.

Commodity analysts at Barclays Capital made the point that gold in real price terms, or adjusted for inflation, remained cheap.

"The inflation adjusted monthly real average is still some $US600 higher at $US1607 an ounce, which was set in January 1980, and compared with the other precious metals, [gold's] gains are by far the smallest for the year to date," the analyst said.

"Positive investor sentiment, a weakening US dollar and technical buying continues to buoy gold prices."

In contrast to strong speculative buying, demand for the precious metal from jewellery makers is low.

Last year, jewellers accounted for 60 per cent of the total demand.

It fell by around 30 per cent year on year in August and was down 22 per cent year on year in the second quarter.

And as the gold price rises, this demand will continue to slide.

"Overall demand for gold fell back from recent high levels as weak economic conditions and high gold prices combined to impact demand [by jewellery makers]," the World Gold Council said.

Total demand for gold in the second quarter of 2009 was down 9 per cent on the levels of a year earlier.

Silver also rallied strongly, gaining 27 per cent since mid-August, breaking through $US17 an ounce to its highest in 14 months.

Silver has risen 67 per cent this year compared with gold's 18 per cent advance.