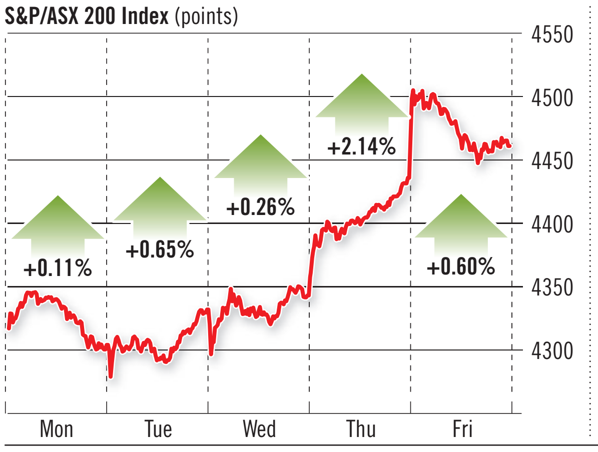
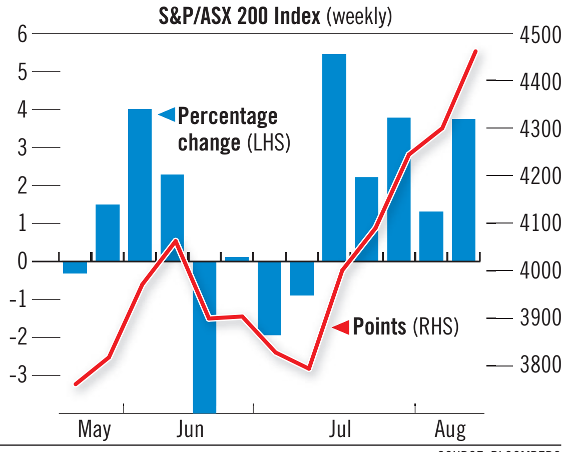
RBA comments drive yet another surge

Report Justin Bailey

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

Best stocks	Change (%)	Worst stocks	Change (%)	Best sector returns	Change (%)
ING Industrial	34.8	Macquarie Media	-9.2	Industrials	6.1
Virgin Blue	33.3	Transpacific	-8.7	Financials	5.7
Flight Centre	31.6	Independence	-6.2	Health care	5.2
Emeco	24.0	Sunland	-6.1	Energy	2.9
Boart Longyear	9.2	Envestra	-5.8	Consumer discretionary	2.7





SOURCE: BLOOMBERG

Industrial and financial stocks combined to drive the sharemarket higher on Friday as investors positioned their portfolios to take advantage of a resurgent economy after the Reserve Bank of Australia said the downturn was likely to be one of the least severe in recent history.

The major S&P/ASX 200 Index gained 25.1 to 4461, rising for the fifth consecutive week, while the All Ordinaries rose 32.7 on Friday to 4469.4. At one stage the major index hit an intraday high of 4509.5.

Stocks gained a leg-up from comments by the governor of the Reserve Bank of Australia, Glenn Stevens, who said in his semi-annual address to federal parliament that, “this may well turn out to be one of the shallower downturns Australia has experienced”.

“Things abroad hardly look rosy but they look distinctly better than they did a few months ago,” he said.

Mr Stevens wouldn’t be drawn on when the official cash rate would be raised from a record low 3 per cent but said there would come a time when the bank would have to start adjusting interest rates back towards normal levels.

The Australian dollar soared to US84.78¢, the highest in 11 months, on the prospect of higher interest rates.

“The market seems to have moved so far beyond green shoots it’s almost pruning season,” IG Markets market analyst Cameron Peacock said.

Royal Bank of Scotland equities strategist Greg Goodsell was encouraged by the news.

“The RBA are now talking about rate hikes instead of rate cuts, which is a clear indication the economy is better than we thought it was,” he said.

A strong lead from Wall Street, where the S&P 500 gained 0.7 per cent on Thursday, helped push Australian shares higher on Friday, capping another strong week. The S&P/ASX 200 advanced 3.8 per cent in the week, and is up 42 per cent since March.

The market gained as profit reporting season appeared to get off to a solid start, with investors busy digesting results from PMP and Leighton Holdings on Friday.

Of the 30 major companies to have reported so far, half have come in with better than expected results, including market heavyweights BHP Billiton, Commonwealth Bank of Australia and Telstra.

Although it is still likely that the 2009 financial year will deliver the largest fall in profits since 1990-91, expectations were so low going into the season that it may be that most companies will manage to beat their estimates.

Shares in Leighton were up $2.27 to $33.30 on Friday after the company reported a 27 per cent fall in net profit to $400 million for the 12 months ended June 30, slightly better than most forecasts of a $421 million drop. But even better was the company’s forecast for next year’s profit of $600 million, again higher than most forecasts.

PMP shares were unchanged at 55¢ after the company delivered a $106 million turnaround, reporting a net loss of $27.2 million for the 2009 financial year compared with a $78.9 million profit in 2007-08.

PMP won’t pay a final dividend and the outlook statement offered cold comfort to investors.

In it chief executive Richard Allely said that revenue growth over the next 12 months would be “limited”.

Industrials and banks led the charge on Friday, with the sectors respectively finishing up 1.9 per cent and 0.8 per cent. Australia and New Zealand Banking Group closed 54¢ higher at $20.74, National Australia Bank finished up 80¢ at $27.75 and Westpac Banking Corp advanced 15¢ to $24.40.

Commonwealth Bank of Australia lost 51¢ to $47.02, but soared 6 per cent over the week after it reported a $4.4 billion cash profit.

Industrial shares rallied as improving data out of the US suggested the economy was on track to recovery.

“It was clear by February this year that a large and rapid recovery was under way in China,” Macquarie Group head of equity strategy Neale Goldston-Morris said.

“By May, it was equally clear that the Australian economy was also recovering.

“It is now clear the US is joining in with a large upturn.”

James Hardie and Incitec Pivot were two stocks that Mr Goldston-Morris said would benefit directly from a recovery in the US.

Over the course of the week these stocks both advanced more than 10 per cent.

James Hardie ended Friday 20¢ higher at $5.75 and the company is tipped to post a strong result in the coming week when it reports.

Incitec Pivot gained 20¢ to $3.23. Adelaide Brighton closed up 1¢ to $2.69.

Mr Goldston-Morris also favoured Billabong, which has strong exposure to US consumers. The stock rose more than 9 per cent in the week and finished up 29¢ to $10.35 on Friday.

In the resources sector, BHP Billiton ended Friday unchanged at $38.26, Rio Tinto rallied $1.19 to $59.99 and Fortescue Metals was unchanged at $4.45.

Felix Resources raced ahead after coming out of a trading suspension following a takeover offer from China’s Yanzhou Coal. The stock hit a high of $18.03, before closing at $17.60.

The RBA governor said he was sceptical if China could keep growing at such a rapid pace.

“Certainly the pace of China’s growth seen in the June quarter, which was extraordinary, cannot continue for long, and may be moderating now,” Mr Stevens said.

If the Chinese economy does slow, demand for iron ore and other basic metals will more than likely dwindle, which will have an adverse effect on BHP Billiton, Rio Tinto and other miners.

About 60 companies, including Qantas Airways, Rio Tinto and Wesfarmers, would report in the coming week, and a number of them could surprise on the upside, Mr Goodsell said.

“I’m expecting in line or better results because analysts downgraded too far on the way down,” he said.

Chartists plot worrying course in Dow performance

Report David Coe

Experts who use charts to analyse sharemarket movements and investor behaviour say Wall Street is poised on a knife edge.

Key measures show the Dow Jones Industrial Average of blue-chip US stocks is displaying a mix of enthusiasm and a rapidly slowing influx of investors after racing up almost 50 per cent from a 12-year low in March.

Many global markets follow the Dow as a leading indicator, so a sell-off could trigger a chain reaction around the world.

US analyst and hedge fund adviser Jake Bernstein, who has polled small traders’ sentiment daily since 1987, said the level of bullishness among small traders was a powerful leading indicator of market turns.

“There’s a close correlation between extreme highs [in small traders’ sentiment] and market tops,” he said. “And small traders are more bullish than at any time since the Dow peaked in late 2007.

“We simply ask . . . ‘Are you bullish or are you bearish?’. We then plot the percentage who say they are bullish as the small traders’ sentiment index. About 90 per cent . . . are bullish.”

Mr Bernstein said small traders were as late to buy into bull markets as they were to sell out of bear markets, so extreme peaks and troughs in their sentiment were good leading indicators of tops and bottoms.

“The small-trader index tends to lead the market,” he said.

“Small traders as a group are not always wrong but they do tend to be an early warning sign at tops and bottoms.”

The volume of trading in the 30 stocks of the Dow has been falling for a couple of weeks. The higher prices go, the less buyers are committing their money.

“Falling volume is a worrying signal,” Mr Bernstein said.

“Lower volume is normal at this time of year because of the holiday season [in the US and Europe]. However, this year it comes as many cheap stocks have risen 200, 300 or even 400 per cent from their lows.

“Soaring cheap stocks is a sign of a bull run ending. That’s because the small traders who get in late can afford only cheap stocks. Few traders can afford $US450 [$537] for Google or even $US160 for Apple – let alone more than $US100,000 a share for Berkshire Hathaway.”

Analysts who study market structure, such as Australian Professional Technical Analysts Association president David Hunt, warn that the Dow, Australia’s S&P/ASX 200 and other global indices have rallied up hard against resistance.

Mr Hunt, who trains investors and traders in market strategies, said the market was topping early, which is a sign of extra weakness.

“The internal proportions for a top in the local market were locked in during the past week and they were locked in during the previous week for the US market,” he said.

“We are overextended. The All Ords is 16 per cent above its 200-day moving average and this is usually a sign of a major top. The tops in 1987, 1989 and 1994 were all established like this.

“There’s a 45 per cent chance of a new high in September after a correction down to 4075 but that new high would be another selling point. A close below 4050 will confirm that the next leg of the bear market has begun.

“The Chinese [sharemarket], which doubled in nine months, has already topped. When BHP Billiton closes below $36.80, it will become a basket case.”

Warning signs

SOURCE: TRADE-FUTURES.COM, GENESIS, BLOOMBERG

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