Now 6000 ASX bandied about

Outlook

Justin Bailey

A powerful rally on the sharemarket is convincing analysts to upgrade their forecasts, with some willing to venture that the benchmark S&P/ASX 200 index could reach 6000 points by June next year.

While the move to that level — which would represent a 41 per cent gain from yesterday's close of 4263.4 points — is considered unlikely, analysts at Credit Suisse believe it is not out of the question if a resurgence in China underpins a fresh boom for local stock.

Credit Suisse research analyst Atul Lele emphasised the 6000 figure was very optimistic. The group's more conservative target is for the S&P/ASX 200 to reach 4900 by June 2010. But Mr Lele said the higher mark could be attained if commodity prices and credit grew by 30 per cent and 10 per cent respectively and central banks around the world refrained from raising interest rates.

''Six thousand points is a best-case scenario and we're not expecting the market to get that high,'' he said.

Growing evidence that China is emerging strongly from the economic downturn is helping to fuel renewed confidence among analysts.

The CLSA China Purchasing Managers' Index — a key gauge of manufacturing activity — rose to the highest in a year in July, figures released yesterday showed.

Nouriel Roubini, a New York University economist who predicted the financial crisis, said yesterday there was ''potentially light at the end of the tunnel'' for the global economy. Former US Federal Reserve chairman Alan Greenspan said at the weekend the most severe recession in the US in five decades might be ending.

Macquarie Group's head of equity strategy, Neale Goldston-Morris, said shares could reach 6000 points next year.

Mr Goldston-Morris said as China recovered it would pull Australia along with it and, as funds flowed through to the domestic economy, company earnings would surge, providing the impetus for the domestic exchange to push higher.

He said Australian consumers were in a better position now then they had been for some time.

''Ninety-five per cent of people still have jobs and their cash flows are markedly improved, mortgage rates are down to 300 basis points, petrol prices are down, and that's why consumer confidence has rallied over the past three months,'' he said.

Since falling to a five-year low on March 6, Australian shares have rallied 35 per cent, helping to turn sentiment and persuade investors the worst of the market downturn is over.

But Royal Bank of Scotland equities strategist Greg Goodsell remained wary, warning a move much higher on the sharemarket would not be justified until company earnings were much stronger.

He said the market was trading at fair value on a price-to-earnings ratio of about 13 to 14 times earnings. The long-term average for the sharemarket is 14 times.

He said the only thing that could drive the market higher from here would be an earnings bounce.

''If you accept the argument the market is reasonably valued, then to get the market to rally another 50 per cent from here you're going to have to see some pretty significant earnings growth in 2010 and 2011,'' Mr Goodsell said.

''Our macro outlook wouldn't suggest you would get that, and even the bottom-up numbers from all the brokers wouldn't suggest that.''

Mr Goodsell said that, while 6000 points was possible, he just couldn't be sure where the earnings growth would come from to drive the share price gains. ''Our view is that a sluggish recovery next year is going to restrict earnings,'' he said.

EL&C Baillieu head of research Ivor Ries said sales numbers were an important indicator for investors trying to gauge how far the market could rally.

In July Woolworths reported sales growth of 7.5 per cent for the year to June 30, then Wesfarmers followed, saying its supermarket chain Coles remained '' on track'' in its attempted turnaround.

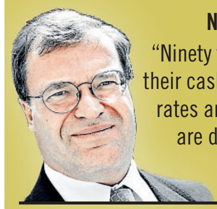
Harvey Norman reported sales were up 3.8 per cent across its stores and JB Hi-Fi said it expected to exceed analysts' expectations when it reported this month.

''If you add all these companies up you end up with a fair chunk of the Australian retail scene and they're all pointing to something of the order of 6 or 7 per cent retail sales growth. You can't ignore it,'' Mr Ries said.

It's a best-case scenario. We're not expecting the market to get that high.
Credit Suisse's Atul Lele

High point

Experts' comments on the S&P/ASX 200 performance



Neale Goldston-Morris, Macquarie Group
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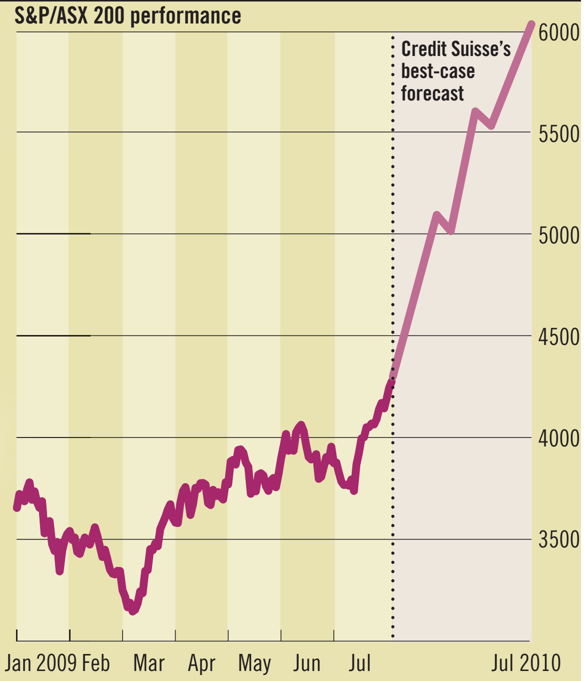
S&P/ASX 200 performance



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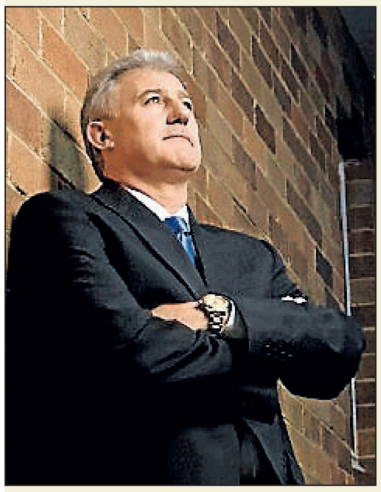
THIS COULD BE ONE BIG SUCKER'S RALLY, WARNS ANALYST



APTAA president David Hunt.

A technical analyst is warning investors to brace for another round of heavy losses that could send the sharemarket tumbling below the five-year low struck in March.

''There's too much good news creeping in and sentiment is becoming too bullish for this to last,'' says David Hunt, president of the Australian Professional Technical Analysts Association and a strategist with Adest, a market training organisation. ''This could be one big sucker's rally.''

Hunt, who called the top of the market in 2007 and the low in March this year within a week of each turn, expects the S&P/ASX 200 index to peak in early September, but this could then be followed by a catastrophic fall, possibly to new lows.

''I thought that first we might get a couple of weeks of weakness about now before a final run at a top around 4200,'' he says. ''However, that weakness doesn't look likely as we hit 4200 last week. We could now go as high as 4500 before hitting major problems. The last leg of the bear market is yet to come. That could well take the index down to around 2900.''

The S&P/ASX 200 fell to a five-year low of 3145.5 in March.

Hunt, who combines fundamentals and sentiment indicators with market structure, says the index's rally to a level above his original forecast adds to his concerns.

''This extra strength is more worrying because it will translate to more weakness when the market does turn down – a great sucking noise is sounding,'' he says.

Hunt adds that when calculating targets and time-frames, it is important to remain flexible and adjust to the market's moves.

Forecasts made with monthly charts need to be fine-tuned with daily charts.

For example, when BHP Billiton was on its highs at $38 in June, Hunt forecast the resource giant could get down to $26. BHP did fall as he predicted, but at $31.38, Hunt swallowed his pride and told his financial planning clients to buy BHP aggressively as his analysis indicated a strong bounce was likely.

''It is important to take into account what the market is doing,'' he says. ''You have to step back and look at what's probable.''

David Coe

Prices up but metals chiefs urge caution

Commodities

Ayesha de Kretser

The price of oil climbed above $US70 a barrel for the first time in a month after an economist who predicted the financial crisis said commodities would rally in 2010 as the global economy improved.

Nouriel Roubini, a New York University economist, was dubbed Dr Doom after he warned the International Monetary Fund in 2006 that a US-led economic crisis was forming. ''As the global economy goes towards growth, as opposed to a recession, you are going to see further increases in commodity prices, especially next year,'' Dr Roubini said yesterday at a mining industry conference in Kalgoorlie.

Dr Roubini said ''there is now potentially light at the end of the tunnel'' for the global economy, but added: ''I don't think this recession will be over until the end of the year.''

Crude oil prices reached $US70.25 a barrel in Asian trade yesterday — the strongest since July 1.

Sentiment in commodity markets lifted after data showed Chinese manufacturing activity rose to a one-year high in July. The CLSA China Purchasing Managers Index rose to 52.8, from 51.8 a month earlier.

The oil price rally yesterday followed strong gains in base metal prices on Friday, with zinc, lead, copper, nickel and aluminium all climbing to new highs for 2009. Zinc for three-month delivery rose 2.3 per cent to $US1750 a tonne — the highest since September. Aluminium for three-month delivery climbed to its highest since November at $US1890 a tonne, while lead and nickel were both their strongest since September at $US1879 and $US17,950 a tonne.

Copper reached its highest price since October at $US5719 a tonne.

But despite the strong performance of base metals, Anglo American boss Cynthia Carroll joined her BHP Billiton counterpart Marius Kloppers in calling for caution.

''After a rate of market decline that has been unprecedented, we expect demand to remain soft in the near term until [Organisation for Economic Co-operation and Development] countries begin to recover materially,'' she said.

''We have seen some recovery in metals prices, [however] macro-economic indicators are mixed and the economic outlook remains uncertain in the near term.''

Mr Kloppers provided a cautious outlook for global growth and demand for commodities when BHP reported quarterly production figures last month.

Matthew Kidman examines the ownership wranglings of Consolidated Media in this afternoon's online Market Wrap newsletter.

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