MEDIA MONITORS

The Dominion Post
Monday 16/5/2011
Page: 3
Section: Business Day
Region: Wellington Circulation: 84,047
Type: Metro
Size: 506.73 sq.cms.
Frequency: MTWTF--

Aussie stocks hit headwind in strong currency

Terry Hall
VIEWPOINT

KIWIS are beating the Aussies where it counts: our sharemarket is knocking the spots off the ASX. In the short term this seems set to continue, encouraged by Kiwis selling their Australian stocks (where they are often making heady exchange rate gains) and reinvesting the money at home.

The high Australian dollar, coupled with expectations that the Reserve Bank of Australia is likely to raise its official cash rate twice in the near future from its already elevated level, is causing massive headwinds for Aussie stocks.

This is encouraging overseas investors to sell or reduce their holdings – a trend that is being further encouraged by lacklustre short-term prospects for many industrial and retail shares, which are struggling in a tough market.

Many companies have issued profit downgrades, with more expected in the current reporting round. That said, most anticipate a strong recovery, possibly early next year, and many analysts' target prices are up to a third higher than current levels.

In contrast, the mining sector, a main reason for the aussie dollar's strength, is performing well.

Over the past 12 months the Australian All Ordinaries index rose 1.9 per cent, compared with a 13.4 per cent rise by the NZX, according to recent figures.

Looking further into these figures, the two-tier market that has developed across the Tasman becomes obvious: industrial, bank, insurance and property shares are doing poorly, while mining-related stocks are faring much better.

The Australian Industrial index was minus 5.3 per cent, the Financial index down 3.1 per cent, and the property index down 2.8 per cent. The gain in the All Ordinaries index was due to mining and related companies, with the Materials index up 9.6 per cent.

There was nothing in the Australian Budget, announced on Wednesday, to help the sharemarket or boost household budgets. In fact, the Budget signalled a modest tightening of fiscal policy settings. The expected rises in Australian interest rates, to counter a jump in inflation in the March quarter, may stifle industrial and household spending.

The latest surveys show a fall in small business confidence as the economy is rebalanced, with investment money diverted towards developing resources, including gas deposits.

Meantime, the aussie continues to trade around record post-float highs as international investors, attracted by the highest interest rates in the Organisation for Economic Co-operation and Development, pour money into the Australian bond market, with little sign the currency could fall in value anytime soon.

Kiwis investors, who are taking advantage of the (possibly temporary) highly favourable exchange rate, face an obvious dilemma: what should they do with the money?

Many people, attracted by the cheap American dollar, are investing in United States funds that give them a wide cross-section of quality shares.

Others are bringing money back home and chasing better-yielding stocks, especially those with tax imputation or portfolio investment entity status.

A startling number of shares were trading at 12-month highs before overseas jitters appeared on Thursday. Surprisingly, this group included Telecom. Although its share price is well below historic highs, many investors seem prepared to believe it is on a recovery trajectory as the new telecommunications landscape unfolds, and it no longer appears to be a pariah in government circles. Its share price has risen 6.45 per cent so far this year.

Major stocks to trade at 12-month highs include Auckland International Airport, Freightways, Mainfreight, Michael Hill International, Opus, Port of Tauranga, Ryman Healthcare, Sanford, Sky City Entertainment and South Port.

Others trading at this level, or within cooee of it, were Cavalier, Charlies, Briscoes, CDL Investments, Colonial Motor, Delegats, Diligent, Finzsoft Solutions, Guinness Peat, Infratil, Kathmandu, Kingfish, NZ Farming Systems Uruguay, Marlin Global NZX, Metlifecare, Scott Technology, Pharmacy Brands, Rakon, Salvus Strategic, Sky Network Television, Skellerup and Turners and Growers.

Encouraged by its takeover of Australia's Crane Group, which has made it a major trans-Tasman player, Fletcher Building has been a star this year, trading up to $9.53. Even though its share price has slipped lately, in part due to poor housing data in Australia, at its week's high of $9.05 it had risen 18.15 per cent so far this year.

A number of stocks in the property sector have been trading at 12-month highs, as investors chased high yields.

They include AMP NZ Office Trust, Argosy and Kiwi Income. Vital Healthcare is fast recovering

Ref: 102077555

The Dominion Post
Monday 16/5/2011
Page: 3
Section: Business Day
Region: Wellington Circulation: 84,047
Type: Metro
Size: 506.73 sq.cms.
Frequency: MTWTF--

from year lows after a major cash issue and proposed changes of manager.

Only two stocks in the Kiwi top 10 were showing negative returns for the year, according to Craigs Investment Partners. They were Contact Energy, whose share price has held up well in spite of being in the midst of a cash issue, and Fisher and Paykel Healthcare, down 3.86 per cent thanks to the low US dollar depressing its earnings there.

Kiwis should be proud of this performance: it should set the NZX up well and hopefully get some much-needed new listings.

Thriving: Port of Tauranga is one of a clutch of organisations whose shares are trading at 12-month highs. Photo: SUPPLIED