

MARKET WRAP

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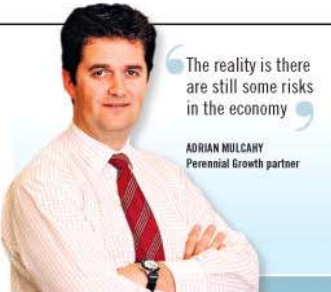
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World wind

World markets last session (%)	
Dow Jones	-1.2
Swiss Market	-1.4
KOSPI	-1.5
Nikkei	-1.8
S&P 500	-1.9
CAC	-2.1
S&P/TSX	-2.2
FTSE 100	-2.3
Shanghai	-2.4
S&P/ASX 200	-2.4
TAIEX	-2.4
DAX	-2.5
Nasdaq	-2.7



The reality is there are still some risks in the economy

ADRIAN MULCAHY
Perennial Growth partner

MSCI World Index (points)



SOURCE: BLOOMBERG

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Market snapshot

S&P/ASX 200 Index (points)



	Close	+/-	52wk high	52wk low
ASX 200	4574.7	-110.4	4859.9	3145.5
Dow Jones	9762.69	-119.48	10092.19	6469.95
Nasdaq	2059.61	-56.48	2176.32	1268.64

Australian dollar (US¢)



	Sydney close	+/-	52wk high	52wk low
TWI	69.6	-0.7	71.4	51.0
SA/US¢	89.90	-1.16	92.80	60.10
SA/¥	81.25	-1.84	85.04	55.14
SA/euro	0.6102	-0.0041	0.6196	0.4751
SA/£	0.5484	-0.0081	0.5742	0.3694

Rates

	Close	+/-	52wk high	52wk low
Cash rate	3.25	steady	7.00	3.00
90-day bills	3.88	-0.03	6.23	3.00
10-yr bonds	5.515	-0.105	5.855	3.860

Commodities

	Close	+/-	52wk high	52wk low
Gold (spot)	1032.40	-5.87	1068.62	695.40
Oil WTI	77.36	-2.06	86.29	31.41

OUT NOW



Prices plunge as Wall Street dives

Equities

Justin Bailey

Investors have been warned that further losses could be in store for the sharemarket after a dose of economic reality and uninspiring company results triggered a heavy sell-off in global stocks.

Financial and mining stocks led the local sharemarket to its worst one-day slump since June yesterday. Shares tumbled across Asia amid renewed concerns about the global economy, after an unexpected fall in US home sales.

The S&P/ASX 200 Index slumped 110.4 points to 4574.7, taking losses this week to 6 per cent. The All Ordinaries retreated 112.1 points to 4575.2. Losses came thick and fast as investors ditched equities and other risky assets, including commodities, in favour of safer assets such as bonds.

Perennial Growth partner Adrian Mulcahy said the weakness showed that investors weren't "out of the woods just yet", but he said markets were in a far better position than in March, when the benchmark S&P/ASX 200 Index slumped to a five-year low of 3145.5.

"The reality is there are still some risks in the economy," he said.

MONEY

'A plunge in share and commodity markets added to the SA's woes, pushing it more than US1¢ lower to its weakest in three weeks at US89.45¢.'

Stephen Shore, page 23

Mr Mulcahy said local investors were influenced by Wall Street, where shares dropped sharply on Wednesday night. The Dow Jones Industrial Average tumbled 119.48 points, or 1.2 per cent, to 9762.69, while the broader S&P 500 plunged 20.78 points, or 2 per cent, to 1042.63.

Regional markets were sharply lower. Japan's Nikkei shed 183.95 points to 9891.1, Hong Kong's Hang Seng lost 496.59 points to 21,264.99 and China's benchmark Shanghai Composite closed 70.86 points weaker at 2960.47.

The MSCI World Index of global stocks has fallen 5.3 per cent over the past week.

Sparking the sell-off yesterday was news that sales of new US homes fell by 3.6 per cent in September, adding to fears that the world's biggest economy is still on shaky ground as the impact of government stimulus wears off.

In Australia, new-home sales fell by 4.5 per cent in September after surging more than 11 per cent to 19-month highs in August.

Investors were also on tenterhooks

before the release of key US third-quarter gross domestic product data overnight. Yesterday was also the 80th anniversary of the 1929 market crash.

Disappointing earnings results from blue-chip companies in Frankfurt and New York added to the downbeat mood.

Both Goodyear Tyres and German software group SAP missed analyst sales forecasts, leaving global investors to question the pace of the economic recovery and wonder if share prices had run ahead of prospects for earnings.

First Samuel chief investment officer Dennison Hambling said that the risks were "probably to the downside" for shares but that a severe correction that took the market back to this year's lows was not in the frame.

"We're not going back to where we were in March," he said.

The big miners were savaged after prices for copper, tin, nickel and zinc tumbled. BHP Billiton gave up \$1.27 (3.3 per cent) to \$37.13 and Rio Tinto dived \$3.12 (4.9 per cent) to \$60.98.

The Big Four banks were all lower after Australia and New Zealand Banking Group posted an 11 per cent drop in full-year net profit due to bad-debt charges and one-off tax and derivative losses. The bank said net profit for the 12 months ended September 30 fell to \$2.94 billion from \$3.32 billion.

The bank's cash profit rose 12 per cent to \$3.38 billion from \$3.03 billion the previous year, beating market expectations.

But this was not enough to calm investors' nerves and ANZ shares slipped 50¢ to \$22.85.

Commonwealth Bank of Australia was down \$1.58 at \$51.45, National Australia Bank lost 78¢ to \$29.05 and Westpac Banking Corp ended 60¢ lower at \$26.10.

Energy stocks were hit as oil prices slid. Woodside Petroleum skidded \$1.70 to \$46.69, Santos ended off 42¢ at \$14.90, Oil Search lost 4¢ to \$5.89 and Origin Energy slipped 15¢ to \$15.67.

But Australian equities are trading at 16 times forward earnings, which is about 1.5 times above the historical mean, making them appear relatively expensive.

Mr Mulcahy said there was a "fair bit of expectation building into the 2011 financial year", and estimates were for company earnings to grow by more than 20 per cent.

Housing shortfall the elephant in the room

Comment

Glenn Mumford

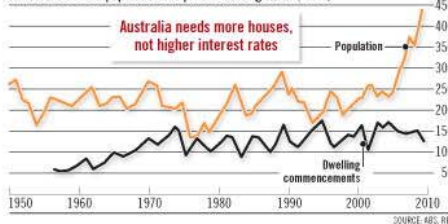
It's time the Rudd government got its hands dirty over housing. Until now it's been happy to hide behind a central bank only too willing to temper demand through lifting rates. But the Reserve Bank isn't able to lend a hand where it matters most - overcoming a slump in housing supply.

I've been critical of the RBA's haste in winding back monetary accommodation. That said, the RBA believes that avoiding an asset price bubble is part of its policy remit, so I should hardly be surprised.

Instead of debating the timing of the RBA's move to pre-emptively punch out the lights of a property pick-up, it's time to start jumping on the back of the federal government over its appalling inability to address the real elephant in the room - residential housing supply. Australia escaped a US-style housing crash not out of good

Home truths

Annual increase in population and private housing starts ('000s)



SOURCE: ABS, RBA

judgement, but thanks to years of inept state and local government. Inadequacies in residential zoning and approvals ensured Australia had no chance of over-building.

But this apparent good luck shouldn't be confused with good judgement. The stark reality is a housing stock that, under prevailing policy, is simply unable to meet

consumer demand.

And it's about to cost us dearly. Unless we address chronic undersupply, price rises are the only means achieving a balanced market. When I say "price" I'm talking acquisition cost and the cost of debt. This is why the RBA is already moving to lift rates.

Unfortunately, this doesn't just

impact the mortgage market - it's lifting borrowing costs for the economy as a whole.

The sooner this dawn on the government, the better. It's clear the RBA understands the differentiation between supply and demand. It's been banging on about the importance of someone tackling supply imbalance, so that there's less need to ratchet interest rates higher.

That someone is state and federal government. In August, RBA governor Glenn Stevens provided a telling insight into how he views the challenge. Following a presentation in Canberra to the House Standing Committee on Economics, he discussed the property market with the shadow housing spokesman, Scott Morrison.

"A couple of years ago [the economy] was booming and the housing part was being held back by high interest rates, among other things, to make room.

We do not need to do that now...

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