THE AUSTRALIAN
Australia's national daily newspaper

Published 13th May 2006
Business News Section, Page 46

Wall St's jitters hit local bourse

Kevin Andrusiak
Equities

AFTER five consecutive gains, the Australian share market came back to earth yesterday as nervous investors on Wall Street triggered a bout of profit-taking on the local front.

Even more gains in spot price markets for base metals could not lift the equities market to another record after fears over the continued strength of the US economy prompted selling on Wall Street on Thursday night.

Much of how the local market will perform on Monday depends on what happened last night on overseas markets with European markets opening weaker in morning trade.

The All Ordinaries index closed 32.7 points lower yesterday at 5285.5 after failing to find any decent support throughout the day. Despite Friday's decline, the index was up 86 points for the five trading days.

The tax cuts from the federal budget prompted a run on shares on Wednesday, particularly in the financial and retail sectors, but this had largely fallen away by the end of the week.

Much of the lift in the market was driven by commodity prices which continue to set new records for metals such as copper and zinc. The gold price is also creating interest for the sector which has so far missed out on much of the record bull market.

But despite the strength in metals prices, more analysts are increasingly predicting that a correction on the local market is just around the corner.

AMP Capital Investors head of investment strategy Shane Oliver said a correction was due between "now and the normally week August to October period".

He said potential triggers included further monetary tightening by China and high oil prices.

"The share market is still below fair value which we estimate to be around 5700," Dr Oliver said. "Profit growth is likely to remain robust, commodity prices are likely to remain high and the macro backdrop of good economic growth, benign inflation and reasonably stable interest rates is supportive. This all suggests further gains in the local share market by year end."

BHP Billiton lifted $1.42 for the week and closed 28c weaker yesterday at $31.72.

After unveiling a bumper interim profit result of $1.99 billion, **National Australia Bank** could only advance 38c for the five trading days and closed yesterday at $36.95.

Retailer **Harvey Norman** was punished by profit-takers after investors sent it 4.4 per cent lower yesterday. Harvey Norman shares had been in demand after the federal budget on Tuesday with market experts predicting tax cuts would prompt a fresh round of buying of electrical goods by consumers. Its share price lifted 14c, or about 4 per cent, the day after the budget.

Harvey Norman closed down 18c to $3.90 yesterday, 23c higher for the trading week.

Wise-Owl analyst Simon Guzowski said the fate of the US economy was starting to play on investor nerves.

"What has the market worried is the number of issues facing the US economy, like inflation risks, a substantial twin deficit, weaker than expected consumer spending and rising oil prices," he said.

"Of greatest concern is the risk of inflation emerging in the US economy, as this could lead to higher interest rates and slower earnings growth.

"When both oil and commodity prices are as strong as they are now, there is a clear danger these higher costs will start creeping into the inflation figures."

It could be a watershed weak ahead for the US economy, with plenty of economic events dotted throughout.

The highlight will be the latest reading of producer price inflation on Wednesday. Housing start figures and industrial production data is due on Tuesday.

On the domestic front, consumer sentiment figures are slated for release on Wednesday which will give an indication of what sense consumers have made of the tax cuts.

Thursday will see the release of the Reserve Bank of Australia's monthly bulletin.