

The Australian

Markets brace for quake aftershocks

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Markets brace for quake fallout

Source: The Australian

INVESTORS facing the aftermath of the devastating Japanese earthquake and tsunami are bracing for a volatile week of local trading, fearful that some of the wildest market swings in years could be triggered by the outcome of these events.

Attention is expected to focus on the uranium, insurance and commodities sectors, which face a short-term investor backlash, as concerns rise about a radiation leak at a nuclear power facility in Japan.

Sectors such as grain export, and iron ore and coking coal production, are poised for a potential windfall when the rebuilding phase starts. Coal and iron ore last year formed the bulk of Australia's \$37 billion worth of exports to Japan -- our second-largest trading partner.

Thermal coal producers and solar panel manufacturers are also likely to win support in the wake of a likely anti-nuclear backlash following the drama at the Fukushima nuclear plant.

Futures trading points to the S&P/ASX 200 index opening slightly higher this morning, in sync with Wall Street's 0.5 per cent gain on Friday night. The benchmark Australian index slumped to a three-month low last week, falling 4.5 per cent on tensions in the Middle East.

Fund managers caution that US trading closed ahead of news about the overheating problems at two reactors. "The US market obviously wasn't in full possession of the facts," said Eley Griffiths portfolio manager Brian Eley. "I think trading (today) will be cautious. I don't think people will be jumping to conclusions."

Japan's Nikkei index fell 1.7 per cent on Friday, but most of the losses were before the earthquake, which struck in the final hour of trading.

"The market reaction has been a bit confused -- it didn't know what to make of it on Friday night and we are yet to see the full impact on the Japanese market," AMP Capital chief economist Shane Oliver said.

The ambivalence was also reflected in currency trading, with the Australian dollar falling below parity with the greenback on Friday, but recovering to \$US1.01 at the weekend.

Dr Oliver said the earthquake struck at a time of lingering Middle Eastern concerns and renewed doubts about European sovereign debt. "It's come at a rough time for investors -- they are already feeling twitchy," he said. "It could be a fairly volatile week."

Wilson Asset Management's Geoff Wilson said the nuclear crisis added "another dimension" to investors' concerns.

"On Friday, the US was reacting to early information about the earthquake," he said. "It definitely creates uncertainty and the one thing the market doesn't like is uncertainty."

The disaster bodes ill for the pure-play uranium producers Energy Resources Australia, which owns the Ranger mine in the Northern Territory, and Paladin Energy, which operates two mines in Africa.

BHP Billiton owns the enormous Olympic Dam copper-gold-uranium facility in South Australia, but uranium is only a small portion of the miner's revenue streams.

Mr Eley said the reactor problems were unlikely to affect long-term demand for nuclear power, especially in Asia. "Unless it blows sky high, I don't think it will slow the Chinese down one iota," he said.

BGF Equities uranium specialist Warwick Grigor expected a "degree of cautiousness" in the sector, given the likely reaction of Greens politicians and the media.

Mr Grigor said the Fukushima facility was at least 40 years old and was not comparable with safer, new-breed reactors.

Listed insurers are also vulnerable to a renewed sell-off. But the global-focused QBE Insurance -- the stock perceived as most in the firing line -- may have escaped a bullet. According to UBS analyst James Coghill, QBE's liabilities are limited to \$200 million-\$300m because of reinsurance cover, with the Asia-Pacific comprising only 5 per cent of its premium base.

Deutsche Bank pointed to positive effects for thermal coal and LNG exporters, given the disruption to Japan's nuclear and hydro facilities. But "iron ore and nickel demand could be affected by possible short-term disruption to the domestic steel industry".

According to the US Grains Council, key ports in northern Japan -- Kushiro, Hachinohe, Ishinomaki and Kashima -- were affected. "We've heard some feed mills and livestock operations have also been damaged by the tsunami," USGC director Tommy Hamamoto said.

Most blue-chip companies face at least some direct disruption, although few have a material operating presence in Japan, let alone the affected northeast region, which accounts for 8 per cent of Japan's GDP.

A Lend Lease spokeswoman said the contractor had a project management operation, previously branded as Bovis, "but we are a really small operation there".

The Astro Japan Property, formerly a Babcock & Brown trust, has a portfolio of 43 buildings worth \$1.7 billion, mainly in Tokyo.

BHP yesterday said its 25 employees in Japan were safe. The company operates a marketing office in Tokyo, but its Japanese client base is the second biggest behind China.

"We will take appropriate steps to mitigate any impact, such as diverting shipments to alternative markets, if required," a BHP spokeswoman said.

Mr Eley said effects of natural disasters tended to be short lived, with Japan's economy recovering quickly from the 1995 Kobe quake.

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