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By Adam Haigh

Jan. 30 (Bloomberg) -- Australian stocks posted the longest streak of daily gains in more than eight years as three cuts in interest rates boosted lenders’ profit margins and signs of recovery in China’s economy buoyed BHP Billiton Ltd.

The benchmark S&P/ASX 200 Index rose 1.1 percent to 4,888.976 yesterday, its ninth straight advance. That’s the longest run since Dec. 22, 2004. Lenders from Westpac Banking Corp. to National Australia Bank Ltd. accounted for the largest proportion of the increase as home sales climbed and business confidence grew. BHP, the world’s largest mining company, paced gains among mining companies as China’s manufacturing, economic growth and industrial production exceeded estimates.

Investors are moving into equities as the Reserve Bank of Australia undertakes the most aggressive interest-rate cuts among advanced economies, sapping the allure of bonds as yields decline. The S&P/ASX 200’s forecast dividend yield of 4.5 is the highest among the world’s 10 largest equity markets, according to data compiled by Bloomberg.

“Lower interest rates contributed to strong gains in the banking sector and the improved China outlook supported demand for Australian resources,” Keith Poore, the Wellington-based head of investment strategy at AMP Capital, which has about $126 billion in assets under management, said in a phone interview yesterday. “We didn’t think there was going to be a hard landing in China and that seems to have been the case. This year will be more about how fast the recovery is in China.”

Interest Margins

RBA governor Glenn Stevens has cut the central bank’s target cash rate four times, or 1.75 percentage points, since November 2011. Australia’s four biggest banks, controlling more than three of every four contracts in the nation’s A$1.1 trillion ($1.2 trillion) mortgage market, have withheld about a quarter of the cuts, according to Bloomberg data.

Commonwealth Bank, the country’s biggest lender, closed at a record high after increasing 4.8 percent from the close on Jan. 15, the last time the Australian benchmark index fell. Together with Westpac, Australia & New Zealand Banking Group and NAB, the four largest banks account for 28 percent of the S&P/ASX 200 index.

Business confidence rebounded by the most in more than a decade during December, NAB’s confidence index showed. The survey of more than 500 companies taken Jan. 9-15 rose to 3 from minus 9, the data show. New home sales rose 4.7 percent in November, the second monthly gain, according to a Jan. 9 private report.

“Rate cuts are starting to improve sentiment and the housing market and credit growth is contributing to a strong rally in financials,” Poore said.

BHP Rallies

BHP, which got 52 percent of its operating income last fiscal year from iron ore, in October boosted spending plans at its Australian ore mines by a third to more than $6 billion this fiscal year. BHP, which advanced 1.8 percent through the past nine days, comprises 10 percent of the S&P/ASX 200 index.

China’s economic growth may accelerate to 8.1 percent this year, from 7.9 percent during 2012, according to the median of 46 analyst forecasts compiled by Bloomberg. The recovery in the world’s second- largest economy and Australia’s biggest trading partner has extended to manufacturing, the Purchasing Managers’ Index shows.

Australia’s benchmark equity index trades at 14.8 times estimated earnings, compared with 13.6 times for the Standard & Poor’s 500 Index, 14.4 times for the MSCI Asia Pacific Index and 12.3 times for the Stoxx Europe 600 Index.

Lehman Recovery

The S&P/ASX 200 gauge has rallied about 50 percent from March 2009, when equity market bottomed after the collapse of Lehman Brothers Holdings Inc. The recovery has lagged behind the U.S. S&P 500, which more than doubled in the time, and the MSCI Asia-Pacific gauge, which gained about 85 percent.

Global stocks rallied last year as central banks from the U.S., Europe, Japan and China took action to spur economic growth. More than 50 percent of institutional investors polled this month said equities will offer the highest returns in the next year, the most since the quarterly survey of investors, analysts and traders who subscribe to Bloomberg began in 2009.

Increasing sales of new Australian homes and a rebound in business confidence come as Prime Minister Julia Gillard’s government, trailing in opinion polls, seeks re-election later this year. Gillard relies on the support of independent lawmakers to retain power.

Floods, Fire

Concern is growing that claims from floods in the states of Queensland and New South Wales may reduce earnings for insurers.

Other states are still battling wildfires after record temperatures earlier this month.

Suncorp Group Ltd., which gets more than a quarter of its premiums from Queensland, fell the most in five months yesterday. Suncorp and QBE Insurance Group Ltd., which said it has received about 700 claims for flooding so far, were the biggest drags on the S&P/ASX 200 during the nine-day climb.

“Australia has had its fair share of floods and fires over the years,” said AMP’s Poore. “It’s devastating for the people involved but it doesn’t really have a long-term impact on the market. I’m not too concerned, from an investor’s perspective.”

The most recent streak is part of a rally that has added about $163 billion to the value of Australia’s listed companies since Nov. 16. The index closed at its highest since April 2011 yesterday, building on last year’s 15 percent advance.

Spending Response

Earnings will grow 28 percent in the current financial year, which ends June 30, and expand 12 percent next year, according to data compiled by Bloomberg. Most economists expect a pause at the Reserve Bank of Australia’s Feb. 5 meeting, reflecting higher commodity prices and the local dollar’s slide against seven of the Group of 10 currencies in the past year.

“More concerted actions by governments and central banks in the past year seem to have lessened the risks to growth, and global prospects look brighter,” said Tony Brennan, head of Australian equity strategy at Citigroup Inc. in Sydney. “Lower interest rates in Australia also seem to be easing the pressure on earnings. This should continue as spending begins to respond more, even if rates have to be lowered further.” He expects the S&P/ASX 200 to rally 6.3 percent to 5,200 by the end of 2013.

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