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Market Opener

Friday, February 14, 2020

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Futures Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
E-mini S&P 500 Futures	3374.75	-5.75	-0.17
E-mini Dow Futures	29408	-115	-0.39
E-mini NASDAQ 100 Futures	9605.25	-20.5	-0.21
SFE 200 Futures	7033	4	0.06

Local Market Commentary

The Australian sharemarket is set to edge higher at the open after an uncertain night on overseas markets, due to the re-emergence of fears the coronavirus is far from being under control. European markets fell sharply while Wall Street followed the same path before recovering to finish slightly down. At 7.45am AEDT, futures are pointing to a gain of 4 points at the open for the ASX.

The ASX200 also suffered from the flip in market sentiment on Thursday. Having touched fresh intra-day record highs in early trade yesterday, the market closed the session's trade a relatively modest 0.21 per cent higher, as traders rotated away from riskier assets. As far as the movers-and-shakers: the utilities sector lead the market, after AGL reported and revealed a less severe decline in its profits yesterday than what was expected; while the telecommunications sector lagged, after Telstra reported a 7.6 per cent dip in its profits.

World Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
Dow Jones	29428.29	-123.13	-0.42
S & P 500	3375.27	-4.18	-0.12
NASDAQ	9713.6602	-12.302	-0.13
FTSE 100	7452.03	-82.34	-1.09
DAX 30	13745.43	-4.35	-0.03
CAC 40	6093.14	-11.59	-0.19
Milan MIB30	24892.15	30.87	0.12
Nikkei	23827.73	-33.48	-0.14
Hang Seng	27730	-93.66	-0.34
Hang Seng China Enterprises	10835.38	-49.31	-0.45
Straits Times	3220.09	-3.28	-0.1
Shanghai Composite	2906.0735	-20.8256	-0.71

Australian Stock Watch

A2 Milk Company Ltd (A2M): The boss of a2 Milk, Geoff Babidge, says consultant fees at the infant formula company are likely to be cut but its marketing spend will remain despite concerns over the impact of the coronavirus gripping the region. Mr Babidge returned to head the $11.2 billion company after former CEO Jayne Hrdlicka suddenly exited in December over tensions between her and the board, and a family health matter. One issue was the consultancy fees spent under Ms Hrdlicka's tenure, which reached $NZ20 million in 2018-19 as marketing costs climbed to $NZ135 million, squeezing margins. This expenditure felt excessive to some, although Ms Hrdlicka was seeking to build a presence in the booming China market for a2 formula. Mr Babidge, at the helm on an interim basis while a CEO search is under way, told The Australian Financial Review the consultancy work completed was of ''high quality'' and the topics considered were ''very valid'', reports AFR.

AGL Energy Limited (AGL): AGL Energy has encouraged investors with a slight upgrade in full-year guidance after a strong first-half performance at its Macquarie generation business in the Hunter Valley and as retail price reforms took a lighter than expected toll. Chief executive Brett Redman said work to remove a bottleneck in coal supplies to the Bayswater and Liddell power stations was the single biggest reason behind the smaller-than-expected drop in benchmark profit in the December half. That allowed AGL to increase generation by 3 per cent in the half, despite the well-publicised outage at a unit at its Loy Yang A plant in Victoria, which lasted the full six months. The external pressures dragging on the business were also less than anticipated although they are still a threat heading into next financial year. ''The headwinds that we called out weren't quite as bad in the half as we are thinking, [but] they are real and they are coming through,'' reports AFR.

AMP Limited (AMP): AMP's full-year results have been hurt by the Hayne royal commission recommendation to ban financial adviser commissions and the liabilities from its controversial cull of advice firms, as total write-downs have blown out to $2.4 billion. The wealth manager said yesterday it swung to a $2.47 billion loss for the year ended December 31 from a $28 million profit a year earlier. Its underlying profit fell 32 per cent from a year ago to $464 million, below market expectations. Chief executive Francesco De Ferrari said the result was reflective of ''challenging'' conditions for the broader wealth-management market as he desperately sought to break with the company's troubled recent history. ''We understand the problems of the past, but we can't get stuck there too long because we also need to understand what the future model is,'' Mr De Ferrari said, reports AFR.

Overseas Markets & Gold Commentary

Gold and silver prices are moderately higher in midday U.S. futures trading Thursday. Some risk aversion is back in the marketplace late this week, as the coronavirus outbreak has escalated in China. February gold futures were last up $7.00 an ounce at 1,578.60. March Comex silver prices were last up $0.118 at $17.61 an ounce.

New cases of coronavirus increased markedly Thursday in China's Hubei province. There were over 14,800 new cases were reported Thursday in contrast to around 2,000 new cases reported Wednesday. Reports said there were around 240 new deaths in the region. Chinese health officials also widened their definition used to confirm cases. More than 1,300 people have died from the epidemic and the total number of afflicted in the Hubei province stands at over 48,200. The World Health Organization warned the recent reports about the slowdown in the spread of the virus should be treated with "extreme caution." "This outbreak could still go in any direction," the WHO said, regarding the status of the outbreak.

China's businesses are being seriously impacted. There are reports of impending steel shortages and other supply chain disruptions. Auto sales in China are reported down around 20%. Global crude oil demand in the first quarter of this year is forecast to hit the slowest rate of growth in 10 years amid the coronavirus outbreak, according to the International Energy Agency. The IEA said "there is already a major slowdown in oil consumption and the wider economy in China."

The ebb and flow of this matter as it relates to the marketplace continues—shifting between the front burner and the back burner of the marketplace on any given trading day.

The Pound spiked 0.7 per cent last night, to push back into the 1.30, upon news that Chancellor of the Exchequer, Sajid Javid, resigned his post, effectively immediately, after a public spat with UK PM Boris Johnson. Despite the potential disruption caused by the departure, especially as the UK prepares for potentially bruising trade-talks with the EU, the market welcomed the story, with Javid's departure seen as opening the way for greater fiscal stimulus from the Johnson Government.

Breville Group Ltd (BRG): Solomon Lew's Premier Investments faces pressure to sell its 28 per cent stake in Breville and return the cash to investors after shares in the appliance maker doubled over the last 12 months. Breville shares soared 27.6 per cent on Thursday to close at a record $25.50 after the maker of Breville, Sage and Kambrook coffee makers, blenders, toasters and microwaves forecast double-digit profit growth this year. Breville said it was insulated from the coronavirus because it had boosted inventory levels last year as insurance against Brexit and tariff increases in the US and to meet demand in Europe, where it is expanding rapidly. The build-up in inventories was seen as a negative last year and sent Breville shares tumbling 20 per cent to $15.35 in August. Since then, the shares have soared 66 per cent, and have now more than doubled since touching a 52-week low of $11.94 on February 13 last year. Premier's stake, most of which was acquired at $1.50 a share, is now worth $900 million compared with a book value of $239 million, and Mr Lew's personal stake is worth about $183 million, reports AFR.

Caltex Australia Limited (CTX): Any rival bidders for Caltex Australia are under pressure to declare their hand after Canada's Alimentation Couche-Tard lifted its takeover offer to $8.8 billion and declared it wouldn't go any higher in the absence of competition. The increase in the offer yesterday to $35.25 a share came four weeks after confidential presentations by Caltex's top management to the convenience retailing giant in two days of briefings in Sydney. It is the second time Couche-Tard has increased its price, despite no rival bid being on the table. Its initial proposal of $32 a share in October was lifted to $34.50 in late November. Both offers were rejected by Caltex's board, led by chairman Steven Gregg. Shares in Caltex rose 2.4 per cent to $33.73, 4.3 per cent below the latest offer price. The stock traded as high as $35.96 in early January but has been sliding over the past few weeks amid weakness in the oil refining sector, reports AFR.

Goodman Group (GMG): Goodman Group's medium-term development outlook is the strongest in its 30-year history according to chief executive Greg Goodman, speaking after the industrial property giant upgraded its full-year earnings at the half-year mark for the sixth year in a row. The upgraded full-year earnings per security guidance of 57.3¢, from a previously forecast 56.3¢, accompanied the group declaring that its $50 billion global property business had not been ''materially impacted'' by the coronavirus outbreak. The news sent its shares surging on a day the ASX 200 was flat. The stock closed yesterday up 5.8 per cent, or 90¢, at $16.30, entrenching Goodman as the country's most valuable real estate investment trust with a market cap touching $30 billion. Over the six months to December 30, Goodman reported a 14 per cent rise in operating earnings to $530 million as it reaped the benefits of the e-commerceled logistics boom, reports AFR.

Lynas Corporation Ltd (LYC): Australian rare earths miner Lynas Corp's stock jumped yesterday after a Malaysian media report said its operating licence for a rare earths processing plant in

International Economic Data

• **AU Consumer Inflation Expectations** - Inflation Expectations in Australia decreased to 4 percent in February from 4.70 percent in January of 2020, reports RBA.

• **AU RBA Gov Lowe Speech** - The Reserve Bank of Australia left the cash rate unchanged at a record low of 0.75 percent during its February meeting, saying the easing of monetary policy last year is supporting employment and income growth and a return of inflation to the medium-term target range. The board noted that the bushfires and the coronavirus outbreak will temporarily weigh on domestic growth, while consumption is seen picking up gradually amid low interest rates, recent tax refunds, ongoing spending on infrastructure, a brighter outlook for the resources sector and, later this year, an expected recovery in residential construction. The unemployment rate is expected to remain around 5.1 percent for some time, before gradually declining to a little below 5 percent in 2021, and CPI inflation is set to be around 2 percent in the near term and to fluctuate around that rate over the next couple of years, reports RBA.

• **US Inflation Rate** - Annual inflation rate in the US climbed to 2.5% in January of 2020 from 2.3% in December and beating market forecasts of 2.4%, Trading Economics

Economic News This Week

- ***Today CN FDI***
- ***Today EU Balance of Trade***
- ***Today EU GDP Growth Rate***
- ***Today US EIA Natural Gas Stocks Change***
- ***Today US Retail Sales***
- ***Saturday US Baker Hughes Oil Rig Count***

Malaysia had been renewed. The company said it had yet to hear news of any approval. The news website MalaysiaKini reported on Wednesday that the Malaysian cabinet had struck an inprinciple agreement to renew the licence, valid until March 2023. Lynas stock rose as much as 10 per cent in early trade despite the company telling the Australian Securities Exchange it had not received any notice of the approval. At 4pm, the shares traded 7.4 per cent higher at $2.27. ''Lynas Corporation Limited notes that there has been speculation on the MalaysiaKini website regarding renewal of its Malaysian operating licence. Lynas has not received notification of such a renewal,'' the company's statement said, reports AFR.

Micro-X Ltd (MX1): Shares in ASX minnow Micro-X Ltd surged 29 per cent after the Adelaide based manufacturer said it secured two orders from south-east Asian governments seeking to use its x-ray technology to help diagnose the coronavirus. A trading halt was lifted yesterday when its shares jumped 4.5¢ to 20¢, pushing Micro-X's market capitalisation to $50 million, from $39 million. The company's first product, the Carestream DRX Revolution Nano, is an ultra-lightweight digital medical x-ray system for the expanding mobile x-ray market in hospitals. Micro-X said production has moved to full capacity to fulfil all these orders within four weeks. CEO Peter Rowland said chest X-rays are a key tool in monitoring the progression of the pneumonia-like symptoms of severe coronavirus infection. ''Mobile x-ray imaging units offer a flexibility of use most suited to the requirements of infection control procedures and also the nature of temporary hospital quarantine buildings,'' he said, reports AFR.

Monash Absolute Investment Company Ltd (MA1): Paul Clitheroe-backed fund manager Monash Absolute Investment posted a first half net profit of $2.97m, a turnaround from a $3.48m loss from the same time last year. The latest result follow Monash's plan to restructure its fund into an Exchange Traded Managed Fund. Monash's gross portfolio return before fees and expenses was about 14.68 per cent for the six months ended 2019. Monash shares closed up 1c at $1.04, reports The Australian.

National Australia Bank Ltd (NAB): NAB has revealed the nascent signs of profit growth in its first quarterly update for the year and confirmed that the sale of the MLC wealth business will be put on the back burner for the time being. CEO Ross McEwan said cash earnings at the bank rose about 1 per cent on the previous corresponding period to $1.65 billion – beating consensus estimates – and promised to reveal his longterm vision for the bank soon. ''Work is under way to refresh our strategy and build a plan for the next five to 10 years, defining our ambition and being clear on the bank we want to be,'' Mr McEwan said. NAB shares popped in early trade, rising more than 3 per cent at the open, but eased over the course of the day to close 1.4 per cent higher at $26.49. CLSA analyst Ed Henning described the result as solid, but highlighted the prospect of more bad news for the bank as it untangled itself from a number of serious and potentially

Commodities *(Source: IRESS)*

COMMODITY	CLOSE	+/-	%
COMEX			
Gold Apr 20	1579.3	7.7	0.49
Silver Mar 20	17.625	0.128	0.73
Copper Mar 20	2.614	0.014	0.54
NYMEX			
Platinum Apr 20	972.3	5	0.52
Palladium Mar 20	2347.9	25.4	1.09
LONDON METAL			
Gold (AM Fix)	1566.75	-0.95	-0.06
Gold (PM Fix)	1563.7	-6.8	-0.43
ENERGY			
Light Crude Apr 20	51.8	0.39	0.76
Brent Crude Oil	56.48	0.26	0.46
CBT			
Wheat Dec 19	544.75	-3.75	-0.68
Soybeans Nov 19	906	2.5	0.28
Corn Dec 19	384.5	-2.75	-0.71
OTHER			
Iron Ore (China Port)	87	2	2.35
Coal (ICE-GC Newcastle)	70.7	0.48	0.68
LME Indicative			
Copper - Cash	5772.25	25.25	0.44
Copper - 3Mth	5785.5	22.5	0.39
Lead - Cash	1904	43	2.31
Lead - 3Mth	1884	35	1.89
Zinc - Cash	2163.75	23.75	1.11
Zinc - 3Mth	2175	23	1.07
Aluminum - Cash	1722.15	10.4	0.61
Aluminum 3Mth	1750.5	16	0.92
Nickel - Cash	13203.5	189	1.45
Nickel - 3Mth	13280	125	0.95
Tin - Cash	16570	75	0.45
Tin - 3Mth	16590	90	0.55

AUD exchange Rates *(Source: IRESS)*

CROSS	CLOSE	+/-	%
AUDUSD	0.6727	-0.001	-0.15
AUDJPY	73.7895	-0.387	-0.52
AUDGBP	0.5179	-0.0021	-0.4
AUDCAD	0.8919	-0.0008	-0.09
AUDNZD	1.0424	0	0
AUDHKD	5.2242	-0.0114	-0.22
AUDSGD	0.9341	0.0001	0.01
AUDMYR	2.7861	-0.0028	-0.1
AUDEUR	0.6186	-0.001	-0.17

costly legacy issues, including an outstanding AUSTRAC matter, reports AFR.

National Storage REIT (NSR): Now that we know China's Gaw Capital Partners is hot on the chase for Australia's $1.7 billion National Storage REIT, the big question is at what price. It's highly relevant for the hot money funds that sent National Storage shares to close at $2.20 yesterday – following the company's confirmation of a Street Talk report – and for at least one other suitor who is believed to be sweating on Gaw's price before making its own play. It is understood that one of private equity bigwig Warburg Pincus, ASX listed Abacus Property Group, and US$40 billion-odd listed Public Storage has what it believes is a competitive offer locked and loaded. All the party is waiting on is confirmation of Gaw's price, sources said, which the market reckons is at around $2.15 based on recent trading. It promises to be an interesting few weeks ahead for JPMorgan-advised National Storage and its merry band of shareholders, some of whom have ridden the company's value all the way up from its 98¢ a share listing price in December 2013, reports AFR.

Newcrest Mining Ltd (NCM): Recent rain in NSW has mostly missed Newcrest Mining's flagship Cadia operations, but managing director Sandeep Biswas says the medium-term outlook suggests the gold mine won't face a water shortage bad enough to will curtail production. Mr Biswas said on Thursday the recent heavy rains in NSW, which delivered relief to some miners such as Evolution Mining's Cowal operations, hadn't led to significant inflows into Cadia's catchment area. "A lot of the torrential rain has been east of Cadia, but there has been some inflow we've noticed over the last 24 hours. We're hopeful, with that and the Bureau of Meteorological forecasts — they're predicting now that we'll get just below the average rainfall for the region," he said. "We only need the rainfall to be above the bottom 10 per cent to make sure we get through without any issues." Newcrest posted flat earnings for the first half of the financial year, despite 2019's rising gold price, and the back of a 12 per cent fall in gold production, reports The Australian.

Pharmaxis Ltd (PXS): Biotech Pharmaxis posted a loss of $10.3m for the December half compared to $12.6m loss for the same period a year earlier. Sales for the half year ended December 31 were $3.3m, an increase of $1 on the December 2018 half year. The company's drug development portfolio is focused on inflammation and fibrosis with a number of products at various stages of development and approval, reports The Australian.

Pro Medicus Limited (PME): Sam Hupert, chief executive of medical imaging company Pro Medicus, is confident the slow-moving healthcare sector will embrace cloud-based computing in the next few years, with industry fears about security assuaged. Speaking to The Australian Financial Review following the company's half-year results, Dr Hupert said he envisaged 50 per cent of its clients using its cloud-based, software-as-a-service medical imaging products within the next five years, compared with most being on-premise customers today. He said the industry move was triggered by renowned US hospital Mayo

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Clinic's announcement last September it had selected Google Cloud as its digital transformation partner. ''The healthcare industry has been much slower to embrace the cloud because of fears about protected health information, or patient privacy,'' Dr Hupert said, reports AFR.

Qantas Airways Ltd (QAN): Qantas has told its pilots it will go outside the airline to find people willing to operate its Project Sunrise flights if they will not agree to a new pay deal for the services between Australia's east coast and cities like London and New York. With the deadline for the aircraft order looming, Qantas has informed pilots a decision is needed and they are prepared to go around the union to get it. A letter written by Qantas International chief executive Tino La Spina said if the Australian and International Pilots Association would not endorse the deal they were proposing, pilots would be asked directly to vote in early March. He said Airbus had already extended the deadline for a firm A350-1000 order until March 31 and the pilots' agreement was needed before then as the final piece of the Project Sunrise business case, reports The Australian.

Telstra Corporation Ltd (TLS): Telstra chief executive Andy Penn has moved to keep the option of acquiring the National Broadband Network open, while doubling down on a stance that better environmental performance will be good for shareholders in the long term. Speaking after the company announced a half-yearly fall in profit of $94 million, or 7.6 per cent, and a 2.8 per cent decrease in revenue, Mr Penn also said he was optimistic about the future of Telstra's mobile business, and said the successful establishment of its standalone infrastructure arm, called InfraCo, gave it valuable flexibility regarding future strategy. Last November, Telstra formally transferred most of its infrastructure, such as mobile towers, data centres and exchanges, into InfraCo. Many suspect the company will be spun off into a separate listed company in order to bid for ownership of a privatised NBN. Its interim results showed income from InfraCo fell 12 per cent to $1.4 billion because of expected declines from Telstra Wholesale and customers moving across to the NBN, reports AFR.

TPG Telecom Ltd (TPM): Jubilant TPG and Vodafone say they are ready to take on Telstra and Optus as Australia's third telecoms giant, after the Federal Court ruled the $15 billion merger would not lessen competition and could go ahead. The decision, which overrules the competition regulator, clears the way for the two companies to form a megatelco with nationwide fixed-line and mobile infrastructure and large consumer and enterprise retail operations. Australian Competition and Consumer Commission chairman Rod Sims was defiant following the ruling, saying history would prove he was right to block the merger, and that consumers had ''lost a once-in-a-generation opportunity for stronger competition and cheaper mobile telecommunications services''. Yesterday's result was the latest in a growing list of ACCC merger decisions that have been successfully challenged in the courts, but Mr Sims did not rule out an appeal, reports AFR.