

Futures Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
E-mini S&P 500 Futures	3035.75	-12	-0.39
E-mini Dow Futures	26984	-148	-0.55
E-mini NASDAQ 100 Futures	8094	2	0.02
SFE 200 Futures	6617	-22	-0.33

Local Market Commentary

Trade deal concern hit markets overnight, sending markets lower. Futures are pointing to a drop of 22 points, or 0.3 per cent, for the Australian share market at the open. It backs up another day yesterday whereby the ASX failed to capture the positivity generated by record high in US equities. Undoubtedly, there remains low appetite for Australian equities in the very short-term. However, the poor showing for the ASX200 in Thursday's trade was likely a quirk of domestic concerns and index composition. The financials were responsible for 23 of the 26 points shed from the index, after ANZ's disappointing report card prompted concern about, and a subsequent sell off in, bank stocks.

The path to Brexit smoothed a little more: In what might be considered, at least for financial markets, a silver lining to last night's trade, a morsel of Brexit related news raised the chances of a smoother Brexit. Nigel Farage's Brexit Party, reportedly, will be removing hundreds of its candidates from this December's UK General Election to open the doors for a Tory majority parliament.

World Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
Dow Jones	27046.23	-140.46	-0.52
S & P 500	3037.56	-9.21	-0.3
NASDAQ	8292.3602	-11.6151	-0.14
FTSE 100	7248.38	-82.4	-1.12
DAX 30	12866.79	-43.44	-0.34
CAC 40	5729.86	-36.01	-0.62
Milan MIB30	22693.77	47.69	0.21
Nikkei	22927.04	83.92	0.37
Hang Seng	26906.72	239.01	0.9
Hang Seng China Enterprises	10533.24	54.15	0.52
Straits Times	3229.88	21.96	0.68
Shanghai Composite	2929.0561	-10.2648	-0.35

Australian Stock Watch

AGL Energy Limited (AGL): AGL Energy's annual briefing of investors has failed to shake off doubts in the market that it can find avenues of growth in the rapidly evolving energy market that will offset the inevitable decline of its huge coal-fired power business. Analysts digesting Wednesday's briefings acknowledged AGL's efforts to diversify into mobile and data services, electricity storage and other opportunities to supply new products for customers, and to make the most of its diverse wholesale energy portfolio. But several queried whether those avenues would in the long-term compensate for the eventual shutdown of coal power generation, while the well flagged short-term earnings headwinds continue to cloud the outlook, reports AFR.

AMP Limited (AMP): AMP has begun an ambitious turnaround strategy but UBS reckons the embattled wealth manager's medium term targets are too optimistic. Taking a deep dive into the possible trajectory for AMP's earnings over the next three to five years, UBS is wary of the pain confronting the Australian wealth management business (which includes advice), saying the decision to cut its reliance on legacy platform revenue is the right move but "a painful exercise nonetheless". The bank says the overhaul of the AWM business, combined with one-off implementation costs, could steer earnings per share 38 per cent lower by the 2021 financial year and 19 per cent below consensus. Cost savings and growth in the advice business mean the effect could prove temporary, though UBS says "execution risks appear high", reports AFR.

Australia and New Zealand Banking Group (ANZ): Ultra-low interest rates are making it harder for ANZ Bank to grow its mortgage book because the vast majority of borrowers are using the interest savings to pay down their loans faster. Unveiling results for the full-year which saw retail and commercial cash profit in Australia plunge 10 per cent to \$3.6 billion, ANZ CEO Shayne Elliott said only 7 per cent of mortgage customers had elected to make smaller payments with most choosing to pay back the balance faster. "That tells you a lot of people are cautious and a little bit nervous about the outlook, so they are saving money, not putting it in their pocket and going out to spend it," he said. ANZ is the first major bank to report its full year result and Mr Elliott painted a picture of a bank whose profitability is under pressure as the size of its home loan book and return on equity both fell, reports AFR.

Bellamy's Australia Ltd (BAL): One of the long-time supporters of Bellamy's Organic, racing identity and Hobart businessman, Bruce Neill, told the annual meeting in Tasmania he would be accepting the Chinese cash offer for the company. His comments came in tandem with the release of the independent expert's report,



Overseas Markets & Gold Commentary

Investors can expect the rally in gold to continue as uncertainty dominates the marketplace, according to the latest forecast from the World Bank. In a report published Tuesday, the global financial institution said that it expects gold prices to rally 5.6% in 2020, which would see prices trade around \$1,600 an ounce. "The risks to the precious metals price outlook are on the upside and reflect heightened uncertainty and weak growth prospects of the global economy," the analysts said. "Prices have been supported by strong physical demand, interest rate cuts by the U.S. Federal Reserve, and increased global policy uncertainty," the analysts said. "Increased demand for gold has been led by central bank purchases, investor holdings in gold-backed exchange traded funds, and jewelry sales, especially in India."

US economic data disappoints, prefaces big night of data tonight: The bearishness elicited by the latest trade-war reports were compounded by some weak US data last night. A gauge of US manufacturing activity fell significantly last month, heralding concerns that business conditions in the US are still deteriorating.

China's and Hong Kong's economy demonstrably weaker: It's not just US data that's getting traders somewhat antsy. The global economic data "pulse" in general was underwhelming last night and yesterday. Canadian GDP data missed expectations. Chinese Manufacturing activity was also revealed to have declined by more than forecast, while Hong Kong's economy was announced to have officially entered recession.

The days' worth of "bad news" resulted in classic risk-off behavior in global markets by the end of the US session. Stocks fell across the globe, bond yields dived, igniting a rally in gold, while oil prices fell, the Japanese Yen climbed, and the Australian Dollar gave up early gains to close Thursday's trade lower.

Having said all this, it's still proving to be a better than expected US reporting season – even if that has come off a "low base". EPS growth is now expected to only contract this quarter by -2.4 per cent. The number of "positive surprises" has fallen to 74 per cent according to Bloomberg data – but that remains relatively high.

which found that the offer by China Mengniu Dairy Company is fair and reasonable and, therefore, in the best interests of shareholders in the absence of a superior proposal. Mr Neill, whose company Quality Life snapped up a chunk of Bellamy's at the 2014 float at \$ 1 per share, is the company's fourth-biggest shareholder, controlling 6.1 per cent. His stake is valued at nearly \$93 million if the deal moves ahead, reports AFR.

BHP Group Ltd (BHP): BHP does not want to be a long-term supplier of gas to Australia's eastern states despite soaring prices for the fuel, and the company says its beachhead in Canadian potash will help diversify its customer base from China. BHP and ExxonMobil have sold gas from Bass Strait into Australia's eastern states for 50 years. Those sales have become far more lucrative since Shell, Origin Energy and Santos, among others, started exporting huge volumes of gas from Queensland in 2015. Despite gas prices nudging above \$9 per gigajoule this year, BHP chief executive Andrew Mackenzie said his company did not want to play in Australia's eastern gas market longer term. "A lot of the [Bass Strait] fields are now in decline", reports AFR.

Blackmores Limited (BKL): New Blackmores chief executive Alastair Symington has warned that higher raw material and ingredient costs are a handbrake on the business, which is also grappling with extra costs as it takes control of a \$53 million tablet-making factory in Melbourne. Mr Symington, who took the helm in mid-September from interim chief executive and major shareholder Marcus Blackmore, said profits for the first half of 2019-2020 were likely to be at similar levels to the June half of 2018-19. He said there was a global shortage of glucosamine, used in many antiarthritis and joint pain products, which had pushed up prices by 25 per cent. "It's one of the big hitters in the category," he said. Mr Symington also announced at Thursday's annual meeting a host of management changes, including hiring Ayumi Uyeda as managing director of Australia and New Zealand, reports AFR.

Charter Hall Group (CHC) & Abacus Property Group (ABP): Property companies Charter Hall and Abacus Property Group have stepped up their pitch for the Australian Unity Office Fund after dumping their holding in the listed trust that they are trying to take over. The two companies on Wednesday sold their 19.9 per cent stake in the target fund in an aggressive tactic to improve the chances of their bid succeeding. The takeover suitors were previously hampered as they could not vote on their own scheme. Their bid appeared to have stalled as one of the top shareholders, the Scanlan family backed Hume Partners, last week boosted its stake in the property fund from 6.65 per cent to 7.88 per cent in a sign that it would try to vote the deal down, reports The Australian.

Cimic Group Ltd (CIM): UBS dropped its price target for CIMIC, citing risks associated with the company's increasing use of supply chain financing to bring forward cash tied up in receivables. While the broker held the stock's rating at 'neutral', its price target was dropped by 22 per cent from \$46.00 to \$35.80. The bank's analysts concluded that while its financing was a sensible way to



International Economic Data

- **AU Private Sector Credit** - Private sector credit in Australia rose by 0.2 percent month-over-month in September 2019, the same pace as in the previous month and in line with market expectations. Housing credit growth was unchanged (at 0.2 percent), amid a faster rise in business credit (0.4 percent vs 0.3 percent in August) and a further fall in credit for personal use (-0.7 percent vs -0.5 percent), reports TradingEconomics.
- **AU Building Permits** - The number of dwellings approved in Australia increased by 7.6 percent month-over-month in September 2019, reversing from a downwardly revised 0.6 percent fall in the previous month and easily beating market expectations of a 0.5 percent gain. This marked the first monthly rise in building permits since May, as approval rebounded for private sector houses (2.8 percent vs -2 percent in August). In addition, permits for private sector dwellings excluding houses surged (16.6 percent vs 3.5 percent), reports ABS.
- **CN NBS Manufacturing PMI** - The Official NBS Non-Manufacturing PMI in China unexpectedly dropped to 52.8 in October 2019 from 53.7 in the previous month and below market expectations of 53.9. The latest reading pointed to the weakest pace of expansion in the service sector since February 2016, underlining sluggish domestic demand and mounting pressure on the world's second-largest economy. There were falls in new orders (49.4 vs 50.5) and employment (48.2, the same as in September). On the price front, input cost inflation eased (51.3 vs 52.8) and output charges fell (48.9 vs 50.0). Finally, business confidence strengthened to a seven-month high (60.7 vs 59.7), reports TradingEconomics.

manage working capital, it could artificially inflate operating cash flow and understate financial leverage. *“We note that CIMIC appears to be using debtor factoring as a core component of its working capital and overall financing arrangements. On this basis, we think it is now more of a ‘debtlike’ facility arrangement rather than being used as a ‘one-off’ transaction,”* said analyst Nathan Reilly, reports AFR.

Commonwealth Bank of Australia (CBA): The corporate watchdog’s decision to begin criminal proceedings against CommInsure was based on the insurer’s alleged failure to provide customers with product disclosure statements when selling life insurance over the phone five years ago. This alleged failure would mean Commonwealth Bank’s life insurance arm breached conditions laid out in the Corporations Act allowing unsolicited sales calls, or *“hawking”*. These conditions focus heavily on product disclosure statements, the fine print documents that are supposed to protect consumers, but which the Australian Securities and Investments Commission recently slammed as inadequate financial *“sludge”*, reports AFR. **Credit Corp Group Limited (CCP):** The \$1.7bn listed debt collector Credit Corp is believed to be making attempts to gain control of its struggling rival Pioneer Credit, which remains at the mercy of its lenders. Shares in Pioneer Credit, which is also listed, have been suspended for some time, with the company on Thursday requesting an extension for the suspension as it delivered an update to its shareholders. While some distressed debt funds may have been anticipating a recapitalisation of the company, the expectation is now that it will be sold, with various parties in the Azure Capital-run process lining up as suitors. In an update to the market on Thursday, Pioneer Credit said a group of parties had been shortlisted for the final stage of a sales process after it had received a number of indicative proposals, and groups were involved in due diligence, reports The Australian.

GPT Group (GPT): Diversified developer and fund manager GPT has swung its portfolio further into logistics real estate as its malls portfolio delivers weaker sales results from its tenants. Led by Bob Johnston, GPT will also bank a windfall in years ahead with confirmation the new metro link to Parramatta will include a station at Sydney Olympic Park, within GPT’s landholding. It’s a boon on several fronts for GPT: the government will acquire part of its holding while GPT’s proposed town centre at Sydney Olympic Park will benefit as well with its office towers at Parramatta. Even so, concerns about its retail exposure weighed heavier for investors after the September third quarter update. The stock closed 19¢, or 3.1 per cent, lower at \$5.95. Some proceeds from \$800 million capital raising in June have been used to acquire new logistics development sites, reports AFR.

Iluka Resources Limited (ILU): Key shareholders are convinced the time is right for mineral sands miner Iluka Resources to spin off a lucrative iron ore royalty it reaps from BHP in a move expected to unlock more than \$2 billion in value. Iluka said yesterday it was considering a demerger of the royalty it earns from BHP’s Mining Area C (MAC), which is set to skyrocket when

**Commodities (Source: IRESS)**

COMMODITY	CLOSE	+/-	%
COMEX			
Gold Dec 19	1515	18.3	1.22
Silver Dec 19	18.105	0.238	1.33
Copper Dec 19	2.6385	-0.0475	-1.77
NYMEX			
Platinum Jan 10	937	6.4	0.69
Palladium Dec 19	1770.8	-21.3	-1.19
LONDON METAL			
Gold (AM Fix)	1490.15	-2.6	-0.17
Gold (PM Fix)	1492.1	5.35	0.36
ENERGY			
Light Crude Dec 19	54.13	-0.93	-1.69
Brent Crude Oil	58.74	-1.78	-2.94
CBT			
Wheat Dec 19	508.75	-0.5	-0.1
Soybeans Nov 19	932	1.5	0.16
Corn Dec 19	390.25	-0.5	-0.13
OTHER			
Iron Ore (China Port)	83	-2	-2.35
Coal (ICE-GC Newcastle)	69.62	-0.38	-0.54
LME Indicative			
Copper - Cash	5769.5	-112.75	-1.92
Copper - 3Mth	5805.5	-76.5	-1.3
Lead - Cash	2171.25	-54.75	-2.46
Lead - 3Mth	2158	-39.5	-1.8
Zinc - Cash	2525	-44	-1.71
Zinc - 3Mth	2488	-28	-1.11
Aluminum - Cash	1754	-2.5	-0.14
Aluminum 3Mth	1756	2	0.11
Nickel - Cash	16680	-140	-0.83
Nickel - 3Mth	16695	-90	-0.54
Tin - Cash	16490	-270	-1.61
Tin - 3Mth	16525	-275	-1.64

AUD exchange Rates (Source: IRESS)

CROSS	CLOSE	+/-	%
AUDUSD	0.6895	-0.0006	-0.08
AUDJPY	74.6595	-0.451	-0.6
AUDGBP	0.5327	-0.0024	-0.45
AUDCAD	0.908	-0.0003	-0.03
AUDNZD	1.0768	-0.0036	-0.33
AUDHKD	5.4024	-0.0082	-0.15
AUDSGD	0.9387	-0.0009	-0.1
AUDMYR	2.8818	-0.0025	-0.09
AUDEUR	0.6181	-0.0008	-0.12

the \$US3.6 billion (\$5.2 billion) South Flank iron ore mine in Western Australia begins production from 2021. Fund manager L1 Capital, which has pushed for a demerger, said the MAC earnings could become the cornerstone asset of a world-class royalty company. Iluka managing director Tom O'Leary said the company was still looking at options outside a demerger, including a royalty dividend policy, reports AFR.

IOOF Holdings Limited (IFL): The corporate regulator has commenced legal action against IOOF subsidiary RI Advice and former financial adviser John Doyle in the Federal Court in relation to conduct presented as evidence during the Hayne royal commission. The Australian Securities and Investments Commission alleges RI Advice failed to take reasonable steps to ensure that Mr Doyle, one of its former financial advisers, fulfilled his fiduciary duty to act in the best interests of clients. The action also alleges that RI Advice – one of four financial planning “dealer groups” sold by ANZ to IOOF in October 2018 – breached its general obligations as a licensee and is seeking compliance orders from the court, reports AFR.

Lendlease Group (LLC): Lendlease has struck the jackpot at Sydney's Barangaroo development by managing to avoid an estimated \$364 million in GST payments on the apartments it sells there. GST applies to all newly built home sales because developers who build new homes are taxed on their service (unlike existing owners who just onsell an established home). However, under a loophole in the law, any apartment development on land leased from the Crown before January 2011 is not subject to GST because the apartments that are built are not considered new properties. Instead, they are treated merely as extensions of the Crown lease. Lendlease's brilliance on this tax matter is the ultimate case in point of how GST collections can slip through the holes, reports AFR.

Myer Holdings Ltd (MYR): The decision in the Myer class action has attracted much attention. However, perhaps its importance has been overstated. Let me explain why. The Myer judgment establishes that a plaintiff only has to demonstrate what a company's market price would have been if the unlawful conduct had not occurred, rather than show individual reliance on a misleading document or statement. The market-based causation issue has been part of securities class action litigation for more than a decade. Yet there has been limited judicial guidance because most cases have been settled. However, within a week, we had two conflicting decisions. The theory was supported in Myer (October 24) but not in Babcock & Brown, another case run in the Federal Court and decided on October 18, reports AFR.

Origin Energy Ltd (ORG): Origin Energy's LNG business has come to the fore in the September quarter, demonstrating strong production and pricing that helped offset the expected weakness in the core energy markets business. Revenues at the integrated gas business, which is dominated by the Australia Pacific LNG export project in Gladstone, Queensland, jumped 7 per cent from a year earlier to \$688 million, thanks to higher Australian dollar oil prices and LNG production rising 3 per cent. However, sales of



Economic News This Week

- Today **US EIA Natural Gas Stocks Change**
- Today **AU AIG Manufacturing Index**
- Today **CN Caixin Manufacturing PMI**
- Today **US Non Farm Payrolls**
- Saturday **US ISM Manufacturing PMI**
- Saturday **US Baker Hughes Oil Rig Count**
- Saturday **US Total Vehicle Sales**

Reports & Events

(selected)

When	Company	Report/Event
Today	ASB	AGM
	BAP	AGM
	CLH	AGM
	CSR	Interim
	IMM	AGM
	MQG	Interim
	ORI	Full year
Mon	CDV	AGM
	CCP	AGM
	WBC	Full year
Wed	BLD	AGM
	CWP	AGM
	CTD	AGM
	EHE	AGM
	PDL	Full year
	PPH	Interim
	VAH	AGM

electricity in the energy markets business dropped 8 per cent from the September quarter last year, which chief executive Frank Calabria said was in line with guidance for 2019-20 and was driven by lower sales to business customers and a drop in retail customers and consumption, reports AFR.

Rio Tinto Limited (RIO): Rio Tinto has hinted its long-held goal of shipping 360 million tonnes of iron ore from Australia could be achieved in 2022, but says no solution had been found for its struggling Australian aluminium smelters. Improved clarity on the 360 million tonnes target came as Rio confirmed its annual spend on sustaining its flagship iron ore division would cost more than previously expected, flagging it would cost up to \$US1.5 billion (\$2.2 billion) a year rather than \$US1 billion. Those higher costs came after mine planning failures in the Pilbara region of WA hampered Rio's exports this year. Addressing investors in London yesterday, Rio said its flagship Western Australian iron ore division would have the capacity to ship 360 million tonnes in a single year once its Koodaideri mine was completed, reports AFR.

Scentre Group (SCG): Scentre, owner of the local Westfield mall empire, has defied worries over consumer sentiment to turn in a solid September quarter of sales. The stock was rattled last month when Westfield co-founder Sir Frank Lowy sold an \$815m stake, cutting the Lowy family ties of six decades with the company. The Lowy stake in Scentre was sold off once the shares hit \$4 and they have since dropped back to close on Thursday at \$3.83. But the company, which controls about \$54.6bn of property, has defied the broader gloom about malls and its sales metrics were generally higher. It reported comparable-centre moving annual turnover of 1.6 per cent year-on-year at the end of September, up from 1.2 per cent at the end of June, reports The Australian.

WAM Capital Limited (WAM): Wilson Asset Management International has tripled its profit and comprehensive income in a financial year in which its director, Geoff Wilson, was catapulted into national politics as the de facto leader of the backlash against Labor's franking credits policy. Documents lodged with the Australian Securities and Investments Commission for the year ending June 30 indicate WAMI achieved profit before income tax of \$13.7 million, up from \$3.7 million in FY 2018. Profit attributable to members of the company, of which Mr Wilson is the sole director, was \$11.2 million, up from \$3 million in the previous corresponding period. Total comprehensive income climbed from \$3.2 million to \$9.4 million, reports AFR.



Ex-Dividend

Code	Ex-Div	Div (c)	Franking (%)	Yield (%)
FNP	Today	3.25	0	0.92
NBI	Today	0.9	0	5.81
PIA	Mon	3.5	67.14	3.10
BIS	Tue	4	100	3.42
NAC	Tue	1.35	100	5.68
NSC	Tue	1	100	5.33
WLL	Tue	21	100	1.61
BKW	Wed	38	100	3.05
BOQ	Wed	31	100	3.77
RMD	Wed	3.99	0	0.70

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