

Futures Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
E-mini S&P 500 Futures	3345.25	10.25	0.31
E-mini Dow Futures	29329	88	0.3
E-mini NASDAQ 100 Futures	9455.25	73.75	0.79
SFE 200 Futures	6992	12	0.17

Local Market Commentary

The Australian sharemarket is poised for more gains as global stocks continued their winning run overnight. At 7.50am AEDT, futures are pointing to a gain of 12 points, or 0.2 per cent, at the open.

ASX200 is expected to extend recovery: SPI Futures are indicating that the ASX200 ought to open around 12 points higher this morning, following Wall Street's positive lead. This'll back-up a day on Thursday which saw the benchmark index stage a 1 per cent rebound. It was a broad-based, risk-on move from the ASX. Embattled commodity stocks lead the way, as did growth names in tech and biotech. At the opposite end of the market, defensive stocks in the real estate and utility space were the sole underperformers.

Australian Retail Sales data topped the economic calendar locally yesterday, and largely disappointed market participants. Retail Sales were shown to have contracted by -0.5 per cent last month – somewhat undershooting the -0.2 per cent forecast.

World Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
Dow Jones	29379.77	88.92	0.3
S & P 500	3345.78	11.09	0.33
NASDAQ	9573.1009	64.4183	0.68
FTSE 100	7504.79	22.31	0.3
DAX 30	13574.82	96.49	0.72
CAC 40	6038.18	52.78	0.88
Milan MIB30	24490.35	253.72	1.05
Nikkei	23873.59	554.03	2.38
Hang Seng	27493.7	706.96	2.64
Hang Seng China Enterprises	10764.34	270.49	2.58
Straits Times	3231.55	31.42	0.98
Shanghai Composite	2866.5097	48.4219	1.72

Australian Stock Watch

Afterpay Ltd (APT): Afterpay has told the Reserve Bank of Australia it "should not be considered a payment system", and its merchant fees need to be benchmarked against the much higher costs that Facebook, Google and Amazon charge for business referrals. As the Reserve Bank considers whether to stop buy now, pay later providers preventing merchants from passing costs on to customers, part of a broad review of the payments system, Afterpay has implored the central bank to avoid imposing regulation that would "stifle innovation, compromise consumer choice and reduce competition". It said regulation of the still young buy now, pay later industry should be a matter for Parliament, and suggested if the RBA's Payments System Board moved to prevent its "no surcharging" clauses it would be acting outside its legislative authority, reports AFR.

Alliance Aviation Services Ltd (AQZ) & Qantas Airways Limited (QAN): Charter airline Alliance Aviation has continued to lease its planes to Virgin Australia despite the latter's rival, Qantas Airways, buying a 20 per cent stake in Alliance last year. The admission comes as Alliance revealed its interim results for the 2020 financial year, with net profit after tax up 8 per cent to \$10.6 million on the corresponding period in 2019. While the result was positive for Alliance overall, the wet-leasing business – where one operator provides aircraft, crew, maintenance and insurance to another – slid 34 per cent, owing to a chunk of non-repeatable wet-leasing that drove the business in the first half of the 2019 financial year, reports AFR.

Australia and New Zealand Banking Group (ANZ): The competition for ANZ's equipment loans business, UDC Finance, is understood to have narrowed, with private equity firm Cerberus Capital Management dropping out of the race. Final bids for the business are due in March. Earlier, other groups still said to be in the race were Apollo Global Management, TPG Capital, and New Zealand's Heartland Bank. Many had initially believed that Cerberus was the most promising contender, given its strong experience and expertise in the space, in a process that has attracted predominantly private equity. Operating in New Zealand, UDC is a major asset finance company, providing funding for plants, vehicles and equipment, along with secure term investments and call accounts. Its loan book is worth \$2.5bn. ANZ has been trying to sell the business for three years, but its initial attempts to divest the division hit a stumbling block, reports The Australian.

Bendigo and Adelaide Bank Ltd (BEN): Bendigo Bank could slash its dividend by a third if it embarks on a capital raising to defend itself against intensifying cyclical and structural headwinds, according to a bleak assessment by investment bank Citi. In fiscal



Overseas Markets & Gold Commentary

[Gold](#) and [silver](#) prices are moderately up in midday U.S. futures trading Thursday. The safe-haven metals bulls have late this week stabilized their markets, despite rallies in global stock markets this week, led by the U.S. stock indexes that are at record highs again. Gold and silver bulls should be very encouraged by their metals' resilience late this week—especially as the U.S. dollar index has also posted a solid rally this week.

Asian and European shares were also higher overnight as traders and investors at least for now have pushed aside the coronavirus outbreak in China. However, history proves traders and markets are fickle. The coronavirus outbreak continues to spread, with over 500 reported dead in China and around 30,000 afflicted in the country. China's domestic commerce is being impacted, as is global commerce. The big drop in Tesla's stock price Wednesday is blamed at least in part on the coronavirus outbreak impacting Tesla's business in China. Many global companies doing business with China (Remember that China is the world's second-largest economy.) have been negatively impacted. It will not be surprising to this longtime market watcher to see the coronavirus outbreak back on the front burner of the marketplace next week, or sooner. Such a scenario would be bullish for gold, U.S. Treasuries and the U.S. dollar, and bearish for global equities.

Stocks return to record runs: Stock markets across the globe have returned to their winning ways. Seemingly, as a result of diminishing fears about the coronavirus outbreak, stock indices in the US and Europe clocked up fresh record highs last night. Boeing shares proved the major outperformer in US trade. They rallied in excess of 4 per cent last night, after the company reported that it had fixed the software glitch responsible for the grounding of its Max 8 aircraft. As for the laggards last night, materials and energy stocks remain under pressure, as commodity prices fail to stage a full recovery in the face of concerns about Chinese economic growth. While financial stocks dropped as bets of global interest rate cuts lowered bond yields.

Market sentiment was supported yesterday news that China would be lowering tariffs on \$US75 billion worth of US imports. The move comes as China attempts to ease pressures on growth and potential price inflation in its economy in response to the coronavirus.

2019, Bendigo Bank paid out a full-year dividend of 70c a share, but Citi estimates the bank will take a knife to its “unsustainable” payout ratio and cut the annual payout to 50c a share if it raises capital to fund a restructure of the business. The investment bank predicts a capital raising could be announced in a matter of weeks — either when Bendigo hands down its half-year numbers on February 17, or shortly thereafter. Announcing a restructure would be the catalyst to “revisit the appropriate setting for the dividend and capital adequacy”, the analysts, led by Brendan Sproules, said. Assuming a restructuring and investment cost of \$200m, Citi expects Bendigo would raise \$350m to fund the program and restore its common equity tier-1 ratio to be in line with its peers, reports The Australian.

BHP Group Ltd (BHP): Peabody Energy says it remains committed to coal mining in Australia, despite launching a sale process for a troubled Queensland asset that was once its most profitable mine. BHP looms as a natural player in the future of Peabody's stalled North Goonyella coking coal mine, which was significantly diminished in 2018 when high gas levels sparked an underground fire. The fire has permanently quarantined sections of the mine's high-quality coking coal resource and forced a production halt that could last four years by the time Peabody has secured government approvals to restart. Peabody has flagged plans to eventually restart mining the unharmed southern sections of North Goonyella; this is significant in the context of the new sale, given BHP's Goonyella Riverside mining complex is on the southern border of the Peabody lease, reports AFR.

Cimic Group Ltd (CIM): The Australian Securities and Investments Commission should consider regulating companies' “pernicious” use of supply chain finance, small business ombudsman Kate Carnell said, after finding too many companies abused the scheme to delay paying bills. CIMIC, Australia's biggest construction group, is among the companies using the schemes to push out bill payments beyond 30 days to at least 65 days. CIMIC on Wednesday defended its use of supply chain finance. The review also called out the “unscrupulous” use of artificial intelligence and algorithms to dynamically set fees charged to small businesses to extract the greatest possible return, and said they should be reviewed by the Australian Competition and Consumer Commission, reports AFR.

Coles Group Ltd (COL) & Woolworths Group Ltd (WOW): Festive foods such as crackling ham and chocolate puddings teamed with free wine glasses helped Coles convince customers to loosen the purse strings in the run-up to Christmas. Australia's second largest supermarket upgraded profit guidance for the December half after stronger than expected food sales and one-off property and insurance gains offset weaker margins in liquor. Coles expects to report earnings before interest and tax of between \$710 million and \$730 million for the 27 weeks ended January 5. This is less than the \$733 million EBIT it reported for the previous December-half (which didn't include New Year's Eve) but beats consensus forecasts of between \$658 million and \$689 million. Same-store supermarket sales rose 3.6 per cent in the December, reports AFR.



International Economic Data

- **AU Balance of Trade** - Australia's trade surplus decreased to AUD 5.22 billion in December 2019 from a downwardly revised AUD 5.51 billion in the previous month and missing market consensus of AUD 5.95 billion. Exports rose 1 percent month-over-month to AUD 41.29 billion, driven by sales of non-rural goods (1 percent); non-monetary gold (14 percent); rural goods (2 percent) and net exports of goods under merchanting (20 percent). Imports grew at a faster 2 percent to AUD 36.07 billion, boosted by higher purchases of capital goods (6 percent); consumption (4 percent) and intermediate & other merchandise goods (1 percent). The Australian Bureau of Statistics confirmed that the bushfires did not result in any impacts to International Trade in Goods and Services statistics for December, reports ABS.

- **AU Retail Sales** - Retail sales in Australia dropped by 0.5 percent month-over-month in December 2019, following an upwardly revised 1 percent gain in the previous month and compared to market estimates of a 0.2 percent fall. It was the largest decline in retail trade since August 2017, reflecting some effects from bushfires and associated smoke haze. Sales dropped in department stores (-2.8 percent vs 3.7 percent in November); cafes, restaurants and takeaway food services (-0.9 percent vs 0.9 percent); clothing, footwear and personal accessory retailing (-1.5 percent vs 3.2 percent); food retailing (-0.3 percent vs 0.7 percent); and household goods retailing (-0.3 percent vs 1.3 percent). Meanwhile, sales of other retailing rebounded (0.2 percent vs -0.4 percent), reports ABS.

- **US Jobless Claims** - The number of Americans filing for unemployment benefits fell by 15 thousand to 202 thousand in the week ending February 1st, from the previous week's revised level of 217 thousand and against markets expectations of 215 thousand. It is the lowest level since the week ended April 13th 2019. Claims data for the prior week was revised to show 1,000 more applications received than previously reported. Continuing Jobless Claims in the United States increased to 1751 thousand in the week ending January 25 of 2020 from 1703 thousand in the previous week, reports TradingEconomics.

Economic News This Week

- **Today AU RBA Gov Lowe Speech**
- **Today CN Balance of Trade**
- **Today CN Foreign Exchange Reserves**
- **Today US Non Farm Payrolls**
- **Today US Manufacturing Payrolls**
- **Today US Unemployment Data**
- **Saturday US Baker Hughes Oil Rig Count**

Crown Resorts Ltd (CWN): International gambling giant Melco has accused the gaming regulator of overstepping its powers by ordering witnesses in the Crown casino inquiry to hand over evidence that breaches legal professional privilege, the NSW Supreme Court has heard. James Packer's attempted sale of a 19.99 per cent stake in Crown Resorts at a knockdown price of \$1.76 billion to billionaire Lawrence Ho's Melco will come under the inquiry's scrutiny as it may give Mr. Ho's father an indirect stake in the casino. Stanley Ho is banned from any involvement in Australian – and several foreign – gambling operations because of his alleged connections with organized crime, reports AFR.

CSL Limited (CSL): Health heavyweight CSL came within a whisker of dethroning Commonwealth Bank as the market's largest stock on Thursday, helping to fuel a rally on the local benchmark. Record-breaking US trade overnight spurred a rally on the S&P/ASX 200 early but late breaking news out of China that it would halve tariffs on \$US75bn (\$110bn) of US imports pushed shares to close at daily highs. The ASX 200 finished up 73 points, or 1.05 per cent, at 7049.2, while the All Ords rose 68 points, or 0.96 per cent, at 7148.7. CSL shares set a new record of \$323.23 through the session before closing up 1.6 per cent at \$320.62 — giving it a market capitalisation of \$145.5bn. That's just shy of CBA's \$149.1bn, with market pundits tipping a change in the ranks after CSL reports next week. China's easing of tariffs was a key catalyst for a lift in market. The Shanghai Composite was trading up 1.2 per cent at the local close while the Hang Seng was up 2.7 per cent and Japan's Nikkei rose 2.7 per cent, reports The Australian.

DEXUS Property Group (DXS): Office sector heavyweight Dexus has defied fears of softer economic conditions and upgraded earnings on the back of stronger demand from white-collar industries for office space. The company said demand was coming not only from big name groups like Atlassian, Salesforce and Amazon but also from established companies launching technology operations. Office towers are also benefiting from the overall outlook for the global economy that Reserve Bank governor Philip Lowe said this week "remains reasonable". Dexus chief executive Darren Steinberg said that bushfires and the coronavirus had increased uncertainty about the short-term outlook but argued there were "reasons to be positive about the white-collar industries which underpin office demand". "Conditions in the technology, finance and business services sectors are much more positive than in many other sectors, and interest rates are expected to remain lower for longer, supporting investment demand for real estate," he said, reports The Australian.

GrainCorp Ltd (GNC): GrainCorp has raised the prospect of fresh takeover tilts at its core agricultural supply chain business and port infrastructure following the demerger of the company's malting division. The east coast grain-handling giant will emerge as the smaller business after the demerger and has twice attracted \$3 billion-plus takeover offers in the past seven years.

**Commodities (Source: IRESS)**

COMMODITY	CLOSE	+/-	%
COMEX			
Gold Apr 20	1570.5	7.7	0.49
Silver Mar 20	17.805	0.203	1.15
Copper Mar 20	2.596	0.0215	0.84
NYMEX			
Platinum Apr 20	966	-21.1	-2.14
Palladium Mar 20	2230.7	-96	-4.13
LONDON METAL			
Gold (AM Fix)	1552.2	-19	-1.21
Gold (PM Fix)	1553.3	-5.05	-0.32
ENERGY			
Light Crude Mar 20	51.06	0.31	0.61
Brent Crude Oil	55.09	-0.63	-1.13
CBT			
Wheat Dec 19	556	-6	-1.07
Soybeans Nov 19	881	1	0.11
Corn Dec 19	379.5	-1.25	-0.33
OTHER			
Iron Ore (China Port)	83.5	2	2.45
Coal (ICE-GC Newcastle)	72.18	0.33	0.46
LME Indicative			
Copper - Cash	5722.25	18.75	0.33
Copper - 3Mth	5745	29	0.51
Lead - Cash	1855	29	1.59
Lead - 3Mth	1849.5	26	1.43
Zinc - Cash	2209.75	-5	-0.23
Zinc - 3Mth	2211.5	-7	-0.32
Aluminum - Cash	1711.75	21.25	1.26
Aluminum 3Mth	1740	19.5	1.13
Nickel - Cash	12977	-102.5	-0.78
Nickel - 3Mth	13105	-115	-0.87
Tin - Cash	16698	121	0.73
Tin - 3Mth	16695	175	1.06

AUD exchange Rates (Source: IRESS)

CROSS	CLOSE	+/-	%
AUDUSD	0.6743	-0.0004	-0.06
AUDJPY	74.037	-0.06	-0.08
AUDGBP	0.5202	0.0012	0.23
AUDCAD	0.8958	-0.0002	-0.03
AUDNZD	1.043	0.001	0.1
AUDHKD	5.234	-0.0027	-0.05
AUDSGD	0.9339	0.0021	0.23
AUDMYR	2.7802	-0.0008	-0.03
AUDEUR	0.6129	-0.0005	-0.07

GrainCorp said yesterday that there was potential for the core business and the new ASX-listed business, to be known as United Malt, to be sold to a third party at a control premium. Morgan's analyst Belinda Moore said the grains business had always attracted attention and could again have a takeover target on its back, reports AFR.

Liquefied Natural Gas Ltd (LNG) & Woodside Petroleum Limited (WPL): Australian LNG and coal exporters face a nervous wait amid expectations China may cut imports as the outbreak of the coronavirus dampens demand for fuels. Both the Woodside Petroleum-operated North West Shelf plant in Western Australia and Shell's QCLNG venture in Queensland could take a potential blow after one of their major customers, China's CNOOC, told buyers it would not take delivery of some LNG contracts. CNOOC's decision to declare force majeure on some supply deals, which have yet to be specified, could hit export cargoes from the two LNG projects at a time of oversupply in the market which has pushed spot prices to near-record lows. Woodside, which supplies 3 million tonnes of LNG to CNOOC from the NW Shelf project, said it was "monitoring for potential impacts on the market", reports The Australian.

Mirvac (MGR): Property developer Mirvac has warned the new coronavirus will have an impact on the local residential property market, but chief executive Susan Lloyd-Hurwitz says it is too early to predict the scale. She said the combination of two natural phenomena — the spread of the coronavirus from China and the disastrous bushfire season — would hit consumer sentiment. "I would be stunned if there was no impact on consumer confidence following both major events," Ms Lloyd-Hurwitz said. "But it's way too early to quantify that or say what that will be or how long it goes for because there's just simply unknowns at this point." Ms Lloyd-Hurwitz specifically called out the rising importance of global warming as Mirvac delivered a healthy first-half result. Although listed real estate trusts were not immediately affected, top operators have been positioning their property portfolios for the impact of rising temperatures, reports The Australian.

National Australia Bank Ltd (NAB) & Commonwealth Bank of Australia (CBA) & Westpac Banking Corp (WBC) & Australia and New Zealand Banking Group (ANZ): The big four banks have stepped up lobbying of Treasury to abandon a proposal for million-dollar penalties for individual executives during a series of closed-door briefings held in Sydney on Tuesday and in Melbourne yesterday. The banking, superannuation and insurance industries are intensifying efforts to water down a key plank of the new executive accountability regime that exposes executives who have done the wrong thing to fines of up to \$1.05 million per breach. The Australian Financial Review understands the banks are so concerned about the changes they sent their own representatives to the roundtable meetings in addition to the industry bodies that traditionally represent them. ANZ, Commonwealth Bank, NAB and Westpac are among those to have sent their own agents to reinforce their opposition to elements of the bill, reports AFR.



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Nick Scali Limited (NCK): Furniture seller Nick Scali concedes its crucial supply chain from China has been disrupted by the coronavirus outbreak, with orders delayed by up to two weeks, and concerns growing that other retailers could soon discover the same issues plaguing their supply networks. It came as the chain became the first major retailer to warn of an impact on sales from the virus, which has added to the uncertainty that has already rattled consumers and shaken confidence. Nick Scali managing director Anthony Scali told investors that despite delays from factories in China, the impact should be cushioned by the fact it had reduced its exposure to China to 40 per cent of production, from 80 per cent, with some furniture output shifted to Vietnam and Malaysia. Nick Scali is the first major retailer to admit that its supply chain will be constricted by the coronavirus outbreak in China, reports The Australian.

Origin Energy Ltd (ORG): Speculation that Chinese LNG importers could invoke special contractual clauses to avoid purchasing cargoes as demand plunges on the coronavirus epidemic has further stoked worries about the glut in the market that is causing near-record-low spot prices. Origin Energy’s Australia Pacific LNG venture and Shell’s QCLNG venture, both in Queensland, have significant long-term contracts with Chinese buyers, as does the North West Shelf venture, although the low price of that contract makes it less of an issue, Credit Suisse said. However, it is understood that neither APLNG nor QCLNG have been affected so far and are continuing with business as usual. “There have been no operational impacts to Australia Pacific LNG as a result of the coronavirus,” an Origin spokeswoman said, reports AFR.

Rio Tinto Ltd (RIO) & Energy Resources of Australia Ltd (ERA): The biggest challenge for companies in the 2020s is that they are and will be held hostage by their assets. Coal, gaming and heavy reliance on protein agriculture are obvious examples. But there is no greater illustration than Rio Tinto’s recent pain points on the Energy Resources of Australia rights issue. Ranger has to cease operations next year and has a mine rehabilitation obligation (by 2026) that gets more expensive by the day. In that context, ERA cannot even think about any Jabiluka upside until it addresses the Ranger rehab to a high standard, to illustrate how hard it is in Australia to deal with controlling interests in listed entities, Rio’s attempt to fund the Ranger rehabilitation obligation has been nothing short of radioactive. ERA has a patient uranium bull on its register called Zentree. It saw an asset hostage situation a mile off and has been building a stake since 2011. Rio had no option but to stump up the funds by some means – it could not let ERA fail and leave the Ranger site unrehabilitated, reports AFR.

Santos Ltd (STO): On Tuesday, the second hearing into the Implementation of the Santos, the EPA and Department of Planning cannot or refuse to give answers on several vital questions such as what is going to happen to the waste and toxic salts that are produced as the gas comes out of the coal seams, or what insurance schemes will be put in place to cover environmental problems such as toxic spills or the loss of underground water from surrounding areas, reports AFR.

