Level 14
172 St Georges Terrace
PERTH WA 6000
PO Box 7625
CLOISTERS SQUARE WA 6850
P: +61 8 9288 3388

Suite 606, Level 6
83 York Street
SYDNEY NSW 2000
PO Box R1931
ROYAL EXCHANGE NSW 1225
P: +61 2 9024 9100

Market Watch

August 2018

1 August 2018

marketwatch@amscot.com.au

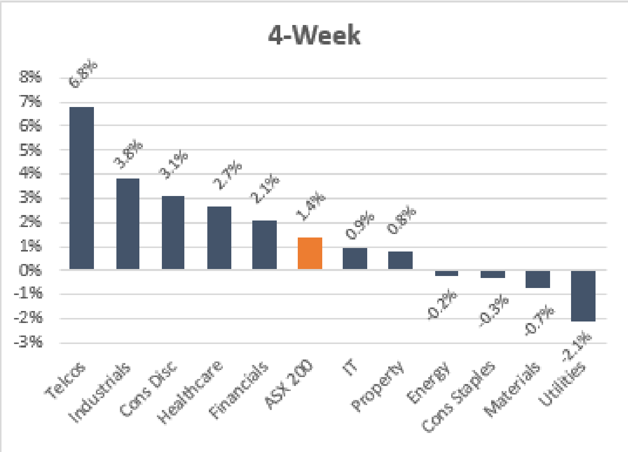
David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

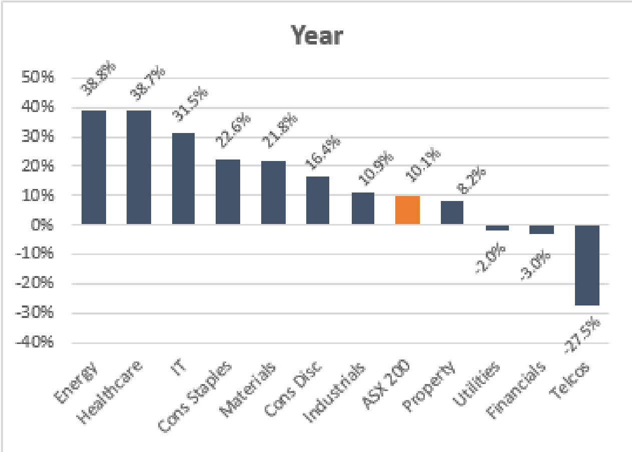
Editor's Note

Uranium – time to shine after a 7-year slump?

ASX small cap uranium players made strong gains late in the week after Canadian uranium heavyweight Cameco (NYSE:CCJ) announced it was extending the (6-month) suspension of production indefinitely at the group's McArthur River and Key Lake mines*, laying off 550 site employees and 150 corporate staff. Note: the operations are amongst the world's largest and highest-grade uranium mines, having a combined production capacity of 18 million pounds of* U_3O_8 *per annum or 11% of annual global primary uranium production of 160Mlb.* ***In the oil market, this would be equivalent to Saudi Arabia effectively shutting up shop!*** *The uranium price reacted positively to the news, spiking up 6.2% (US$1.25/lb) to US$25.65 – the biggest intraday move in the past two years. However, prices are still well below the US$70/lb level that producers enjoyed prior to the March 2011 Fukushina Daiichi nuclear disaster that forced Japan to shut down its entire reactor fleet. Most market commentators believe that at current price levels, even the lowest cost uranium mining operations in the world are struggling to break-even on an estimated "all-in" cost/lb basis. As higher priced supply contracts expire, we believe more and more producers may be forced to curtail production – unless we see a significant upward shift in the spot price. In addition, current prices are a long way off the US$60/lb trigger price needed for new mines to come into production. On the demand side, uranium demand is growing with 59 nuclear reactors under construction and Japan potentially restarting an additional 25 reactors (on top of 9 that have restarted since 2011).* ***Thus, it looks like over the next two years, the uranium supply/demand balance is going to become increasingly tight****. For investors with this sort of time horizon, uranium-exposed stocks – which have been heavily sold-off in recent years - could provide attractive returns.* ***Stocks to consider:*** *Producer: Paladin Energy (ASX:PDN), Near-term Producer: Boss Resources (ASX:BOE), Leverage play: Bannerman Resources (ASX:BMN)*

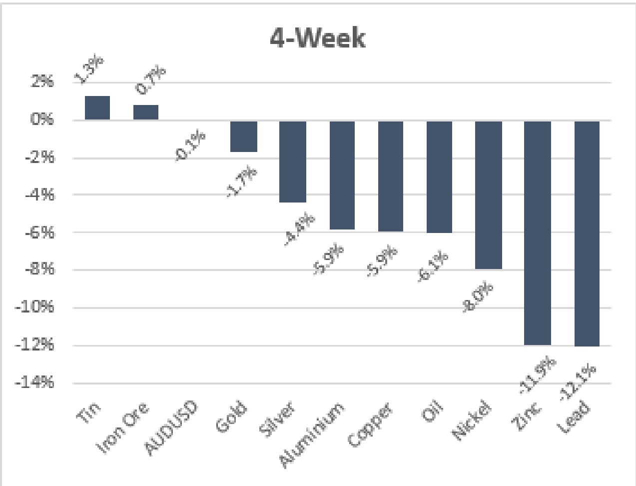
ASX 200: sector performance over past four weeks and year

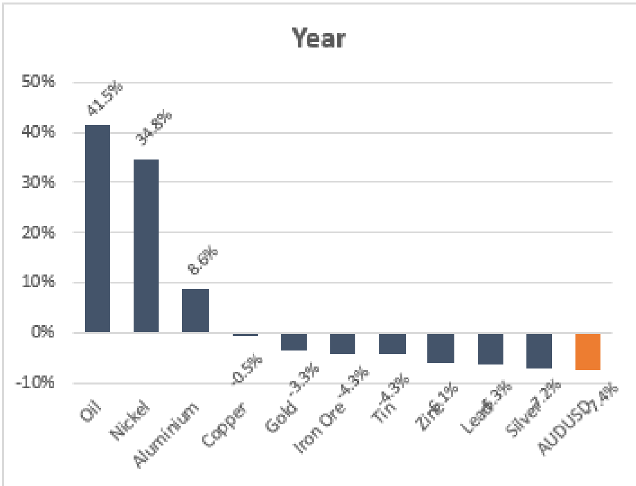




Source: IRESS, compiled by State One Stockbroking

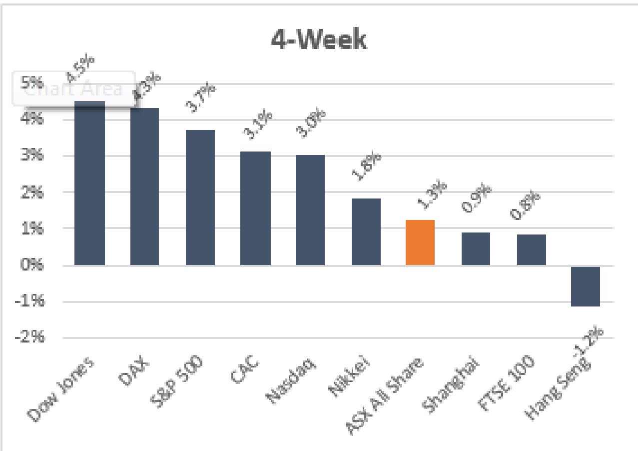
Commodities and AUDUSD: performance over past four weeks and year

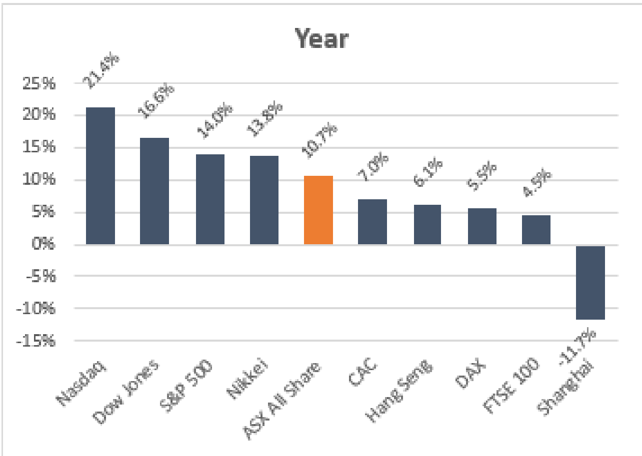




Source: IRESS, compiled by State One Stockbroking

World Indices: performance over past four weeks and year (local currency)



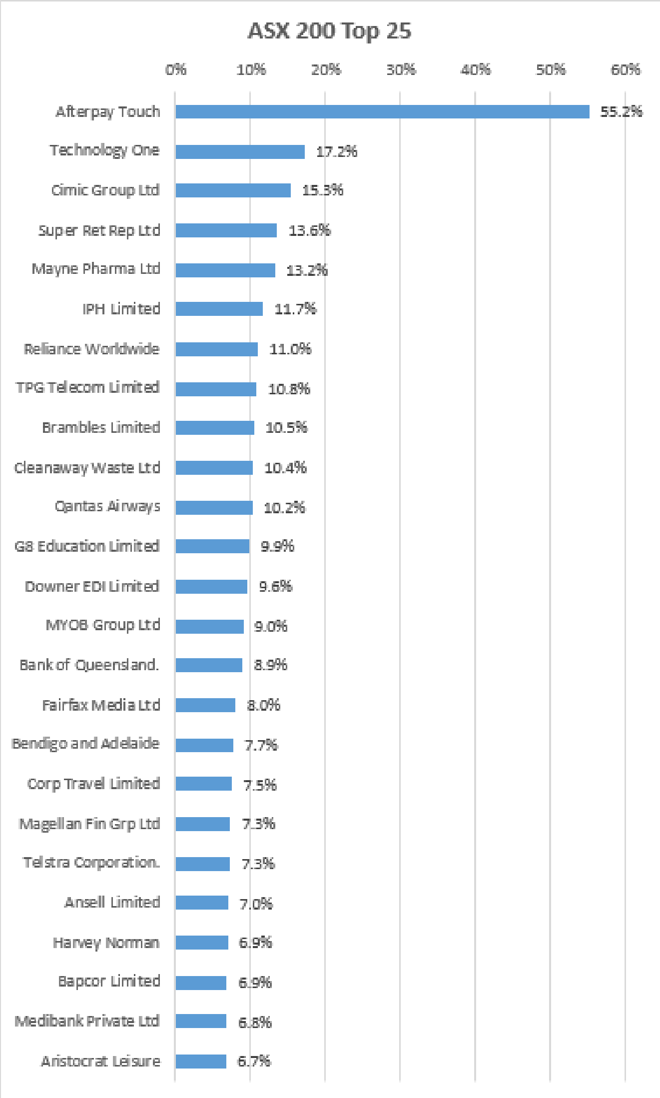


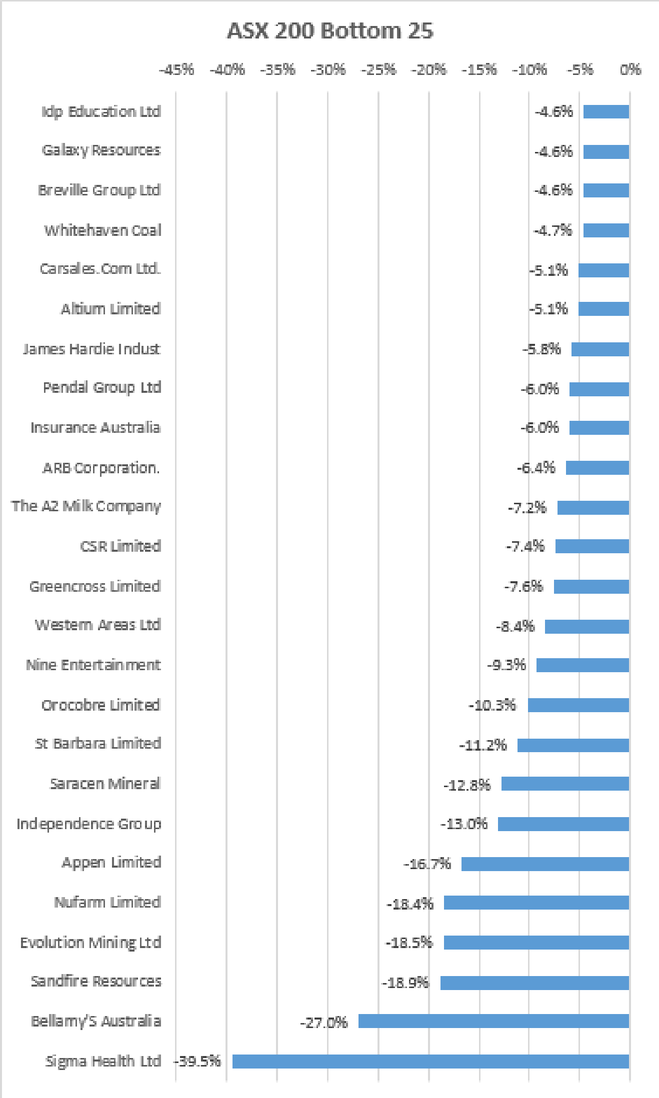
Source: IRESS, compiled by State One Stockbroking

Commentary

- The FTSE/ASX 200 Index gained 1.4% in July, with the Telco sector -for once - posting a positive return (+6.8%) and significantly outperforming all other sectors; the Utility was the underperformer for the month, coming in at -2.1%.
- Commodities were mostly negative in July (as in June); only tin and iron ore achieved gains of 1.3% and 0.7%. Gold and silver battle to find positive catalysts, while zinc and lead were heavily sold off.
- ASX equities underperformed global indices in July. However, over the past year, Australian equities have gained 10.6%, above average, but still a long way short of the buoyant US Nasdaq (+21%) and Dow Jones (+17%).

ASX 200: top 25 and bottom 25 performing stocks over the past four weeks (% gain/loss)





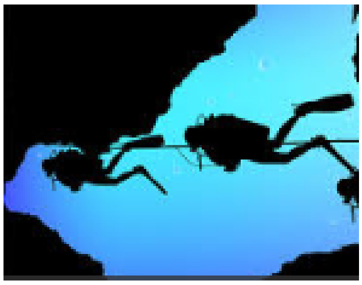
Source: IRESS, compiled by State One Stockbroking

- **Top performer**: Afterpay Touch (ASX: APT) appreciated by 55.2% as the group silences the doubters on a strong start in a new and large market – the US.
- **Worst performer**: Sigma Health (ASX: SIG) down 39.5% as earnings and broker target prices are revised down following parting with Chemist Warehouse.

Month in review - *events that caught our eye in July*

House prices in Sydney – Australia's largest property market – forecast to end the fiscal year down 5%, reflecting fundamentally softer market conditions and the lowest auction clearance rates since 2012.

Donald Trump meets the Queen after declaring post-Brexit trade deal back on thanks to "higher level of special relationship". Thousands of people take to the streets in London to protest the visit.



International diving team rescues 12 young boys and their soccer coach from a flooded cave system in Thailand. Rescue seen as a miracle and was widely followed by world media.

BHP exits US shale gas business after US$10.8bn sale of assets to BP and Merit Energy. BHP plans to return sale proceeds to shareholders. Sale ends BHP's ill-timed foray into US on-shore unconventional oil and gas in 2011.

Farmers across NSW, parts of Queensland, and South Australia battling drought conditions; Nufarm issues profit warning.

US President Trump and EU officials agree to work towards "zero" tariffs, barriers, and subsidies. Trade War averted but deal, so far, is short on details.

FIFA WORLD CUP
RUSSIA 2018

France wins the 2018 soccer World Cup with a comprehensive 4-2 win over Croatia. Tournament seen as a success with plenty of goals, and hosts Russia putting on a well-run and enjoyable event. Off to Qatar in 2022!

Arson could be to blame for wildfires that killed dozens in Greece's deadliest forest fire in decades. Death toll at 82 expected to increase with many injured and missing. Greece announces three days of mourning.

Fairfax Media

In one of the biggest media deals ever seen in Australia, Nine Entertainment and Fairfax Media announce a A$4bn merger. Merged company to be called Nine. Deal slammed in some quarters as concentrating media offering to consumers.

Technical Analysis vs Fundamental Analysis

What is Technical Analysis?
It is the practice of valuing stocks on past volume and pricing information.

Technical analysis assumes the following:

Market value of the asset reflects supply and demand of the asset.

Supply and demand are driven by rational factors, such as data and economic analysis, as well as irrational factors, such as guesses.

Markets and individual stocks move together given trends.

Shifts in supply and demand will shift the trends in the market and can be detected in the market.

What is Fundamental Analysis?

Fundamental analysis takes a more formal approach. Fundamental analysts review the financial statements of a company and generate metrics, such as price-to-book value and enterprise value-to-EBITDA to value a security.

Technical vs. Fundamental Analysis

The main difference between technical analysis and fundamental analysis is the use of financial statements to value equities. Technical analysis is the practice of valuing stocks on past volume and pricing information. Technical analysis combines both the use of past information (how stocks have reacted previously) and "feeling" (how the market is moving) to value the security.

Advantages of Technical Analysis:

- Easy to understand and can be performed relatively quickly, especially with the aid of one of the many types of charting software.
- Does not rely on the use of financial statements for valuation purposes.
- Rather than strict fundamental valuation, technical analysis considers the "feeling" of the market, which is subjective.

Challenges to Technical Analysis:

- The past is not always an indication of future results, calling into question the validity of technical analysis.
- Technical analysis violates the premise of EMH (Efficient Market Hypothesis) because EMH believers assume that price adjustments happen too quickly to be profitable.

Technical indicators are used widely by traders to help them formulate their view on the market:

1. Contrary Opinion

Traders that follow this type of analysis view the majority as being incorrect and choose the opposite direction. One example is Mutual fund cash positions. Given a mutual funds holds a part of its assets as cash, traders monitor cash positions of mutual funds (reported monthly) and trade against them accordingly. To a trader, a large cash position in a mutual fund would be an indication to buy (mutual funds are bearish, hence trader would be bullish). Also, a large number of bearish investment advisory opinions would indicate it was time to buy, again taking the contrary view.

2. Smart Money

- Some investors are deemed smarter than others and, therefore, their money is considered "smart money". Traders typically follow the smart money. The following are viewed as smart-money indicators.
- An increase in margin debt would indicate that investors are becoming more bullish.

3. General Market

- Breadth of market is the measure of stock declines versus stock increases for the day, indicating direction (a technical indication for the market).
- Short interest is the measure of stocks sold short. If short interest increases, that is a bullish signal as investors will have to buy the stock to cover the shorts.

4. Stock Price and Volume Techniques

- **Dow Theory** - A theory which says the market is in an upward trend if one of its averages (industrial or transportation) advances above a previous important high, it is accompanied or followed by a similar advance in the other. The theory also says that when both averages dip below previous important lows, it's regarded as an indicator of a downward trend.
- **Support and Resistance** – This is a psychological view that a stock does not often trade above its support and resistance level. Traders monitor the levels for strategy. If a stock breaks out of its resistance level, it moves to the next resistance level.
- **Moving-average** measures the average moves of a stock over a specified time period. This measure removes daily fluctuations in a price change and the trend can be more readily discerned.

.

Dawn Chia
Business Development Manager
amscot Stockbroking and Advisor Services

Warnings and Disclosures

These Research products and their contents at all times remain the property of State One Stockbroking Ltd ("State One") and as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from State One. The contents of this document constitute General Advice and have been prepared without taking account of your investment objectives, financial situation or needs. Because of that you should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in these documents, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs. While State One believes information contained in these documents are based on information which is believed to be reliable, their accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One or any officer, agent or employee of State One. If applicable, you should obtain the Product Disclosure Statement relating to any relevant financial product mentioned in this document (which contains full details of the terms and conditions of the relevant financial product) and consider it before making any decision about whether to acquire the financial product. The directors and associated persons of State One may have a long or short interest in the financial products discussed in these documents and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products. Additionally, State One may earn fees due to having been appointed advisors to, or may be undertaking or about to commence research relating to any of the companies mentioned here.

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Blair Spaulding
Client Services Officer
Phone: +61 8 9088 3319
blair.spaulding@stateone.com.au