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## Global Wrap – 6 May 2018

### Key points

1. Best week for ASX in more than year
2. Aussie rates on hold until 2019
3. Trade talks unnerve Asia
4. China opens iron ore futures trade
5. Stock analysis: finance sector

### US

US stocks closed sharply higher Friday as Wall Street shrugged off lacklustre numbers in the government's monthly jobs report, while shares of Apple hit an all-time high to lead the technology sector higher, CNBC reported.

The [Dow Jones industrial average](#) closed 332.36 points higher at 24,262.51 thanks to a 3.9% rally in [Apple's](#) stock, which jumped after famed investor Warren Buffett revealed that he bought 75 million shares of the iPhone maker during the first quarter. By the closing bell, Apple had gain of 13.45% for the week, its best since October 2011.

The [S&P 500](#) rose 1.2% to finish at 2,663.42 after falling 0.4% earlier in the day, buoyed by a nearly 2% gain in tech, which led all 11 sectors for gains. The [Nasdaq composite](#) rose 1.7% to close at 7,209.62, its first positive day in the last three sessions. As well as the rally in Apple, there was a 1.4% gain in Facebook and a 2.4% boost in Google-parent Alphabet.

In its earnings report this week, iPhone sales were still [up from a year ago](#), and Apple CEO [Tim Cook](#) said in a statement that customers "chose iPhone X more than any other iPhone each week in the March quarter."

Also on Friday the Labor Department reported that [the economy added 164,000 jobs in the month of April](#), lower than the 195,000 expected by economists polled by Reuters. Average hourly earnings growth also missed, rising only 0.15% against expectations of a 0.2% gain.

Despite the miss in the number of jobs added, the government said the unemployment rate fell to 3.9%, an 18-year low.

Changes in the average hourly earnings numbers are closely watched by members of the Federal Reserve as a bellwether for inflation. Hourly earnings have been increasing at about a 2.7% pace, which is above the recovery pace but still short of where Federal Reserve officials are targeting, quelling fears of further rate hikes for now.

The US CPI will be related on Thursday and is expected to come in at 2.4%.

## Asia

The Asian stockmarkets that were open on Friday traded warily as trade talks continued and ahead of the US jobs data release after the close of Asian sessions, Reuters reported.

Hong Kong's Hang Seng Index fell 1%, South Korea's Kospi dropped 0.8% and China's Shanghai Composite index lost 0.2%.

Trade talks between China and the US carried on for their second and likely final day. US Treasury Secretary Steven Mnuchin said late Friday, after the close of Asian markets, that the discussions had been very good.

China's CPI will be released on Thursday.

Asia markets were trading without Japanese investors on Friday, with markets in Tokyo closed for the Greenery Day public holiday.

## Europe

The pan-European [Stoxx 600](#) closed provisionally more than 0.6% up with the majority of sectors and major bourses edging higher.

[Ferrari](#) led the gains and its share price hit a record high, after better-than-expected earnings led to a number of ratings upgrades for the automaker. The stock was up 7.7%, CNBC reported.

## Australia

The ASX snapped a five-session winning streak on Friday but still posted its best weekly advance for more than a year as investors welcomed some robust corporate earnings updates, Fairfax reported. On Friday, the S&P/ASX 200 index fell 35 points, or 0.6%, to 6062, taking the gain for the week to 1.84%, the best weekly performance since late March 2017. The All Ordinaries lost 31 points, or 0.5%, to 6155, and the Australian dollar traded flat at US75.33c.

During Friday's session in Australia, gains from Macquarie helped limit downside for the benchmark after revealing a bumper profit, ending the day up 0.2% at \$108.01.

The investment bank was the exception in the banking sector, however, with Commonwealth Bank shares down 1.6% to \$72.76, National Australia Bank shares down 1% at \$29.10, Westpac shares down 0.9% at \$29.10, and ANZ shares down 0.6% at \$27.55.

Financials in general did however manage to advance over the week even in the face of ongoing headwinds from the royal commission, with a 2.4% uplift.

Technology stocks were the best performers over the week, jumping 4.1%, with Wisetech a standout. Its shares rallied 23.9% to \$12.28 after the company stuck to its earnings guidance but lifted its revenue target slightly.

Qantas shares flew 10.9% higher to \$6.31 after the airline reported a 7.5% rise in third-quarter revenue to \$4.25 billion and said it was on track to report record underlying profit before tax in 2017-18 of between \$1.55 billion and \$1.6 billion.

Seven West Media soared, ending the week 27.3% higher at 70¢ a share. The firm's shares surged after the Australian Competition and Consumer Commission decided not to oppose the acquisition by Seven West and Nine Entertainment of Network Ten's stake in the TX Australia joint venture. Network Ten has vowed to appeal the ruling. In addition, Seven Group Holdings chief executive Ryan Stokes said that his firm's interest in Seven West Media will hopefully grow, soothing worries that the Stokes family could sell out of its media interests.

JB Hi-Fi shares were among the biggest losers, falling 7.9% to \$23.52 over the week after the retailer trimmed its net profit forecast to \$230 million from a previous forecast of \$235 million to \$240 million while confirming full year sales guidance of \$6.85 billion.

The **Reserve Bank of Australia's Statement on Monetary Policy** out on Friday contained almost no changes to the central bank's key forecasts but did provide a few more clues on its thinking around interest rates. The statement "provided a clearer sign that the RBA has moved on from wondering if interest rates need to rise to considering when they will rise," noted Paul Dales at Capital Economics. "But the bank also appears to be all-but ruling out a hike this year."

In a slow upcoming week for data the NAB Business Confidence Index will be released on Monday, then the Westpac Consumer Confidence reading on Wednesday.

## Commodities

**Oil** prices held steady on Friday after shedding earlier gains, as market jitters kicked in over the prospect of geopolitical risks from possible new US sanctions against Iran, [oilprice.com](http://oilprice.com) reported. Brent crude oil futures were at \$73.64 per barrel, up 2c, from their last close after touching an intraday high of \$73.80 per barrel earlier in the session. The fluctuations came as investors sifted through the upcoming Iran sanction decision and an increasing US crude inventory build for clues as to the likely direction of oil prices.

### Iron ore - China opens futures contracts

China plans to open more of its futures contracts to foreign investors, a senior official said on Friday, as Beijing launched its "internationalised" iron ore contract, Fairfax said.

Global merchants Glencore and Trafigura were among the first foreign firms to trade iron ore on Friday, although they have long had access to the contract through local entities.

The change means foreign companies will be able to trade directly, opening the market to more participants.

The move is expected to increase trading in the Dalian Commodity Exchange's iron ore contract, which was launched in 2013 and is already among China's most liquid derivatives, with volumes far surpassing shipments of global seaborne iron ore trade.

The most actively traded September iron ore contract closed down 1.2% at 471.50 yuan (\$US74) a tonne, retreating from a two-day spike that pushed it to a more than one-week high on Thursday.

Volume for the most-traded contract reached almost 2.9 million lots, just surpassing April's daily average of 2.8 million lots.

The spot price for ore, 62% iron content, slid 0.9% to \$US66.28 a tonne on Friday, according to Metal Bulletin.

The strong liquidity in China's markets is a strength in its bid to be a price setter. But the huge volumes also make China's iron ore contract a magnet for speculative retail investors, who have triggered wild price swings and prompted regulators to impose trading curbs over the past two years.

Unlike oil, gold and copper, for which prices are set in London and New York, iron ore is [one of the few commodities](#) whose global pricing takes its cue from China.

Prices there virtually dictate the path for the physical market. In 2017, Dalian iron ore volumes reached nearly 33 billion tonnes versus global annual iron ore trade of about 1.5 billion tonnes.

**Base metals** rallied on Friday as disappointing US employment data was not enough to change investors' overall bullish view of the world's biggest economy, and after China reported some progress in trade talks with the Trump administration.

**Aluminium** hit its highest in nearly two weeks at \$2,367.50 after Russia's Rusal, the world's No.2 aluminium producer, experienced a 70% export plunge in April from March. The US slapped sanctions on Rusal last month.

**Zinc**, which earlier touched a nine-month low of \$2,970 as investors bet the global market deficit would narrow this year, got swept up in the return of risk appetite, ending up 1.6 % at \$3,055 a tonne.

**Gold** rose Friday against all major currencies except the US dollar and Japanese yen after the release of the American jobs figures.

Priced in dollars gold on Friday headed for its lowest weekly finish of 2018 to date as New York opened for business, trading at \$1309 per ounce.

## Stock analysis

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established on 14 December 2017 by the Governor-General of the Commonwealth of Australia, Sir Peter Cosgrove. Public hearings commenced on Monday, 16 April 2018.

The findings of the Commission have been well publicised, and the shocking revelations have highlighted serious regulatory, compliance, and management shortcomings in the financial and banking sectors in Australia. We have little doubt that the Banking Royal Commission is set to change the country's financial landscape.

The ASX 200 Financial Index – which was already under pressure over concern that the housing market has peaked - has not reacted well over the past month. The ASX 200 Financial Index is down over 5% YTD (closer to 7% before a broad-based market rebound late last week).

After the sell-off, financial plays which offer attractive upside potential (relative to their IRESS consensus target prices) include AMP Limited (ASX:AMP), Bank of Queensland (ASX:BOQ), and Westpac (ASX:WBC).

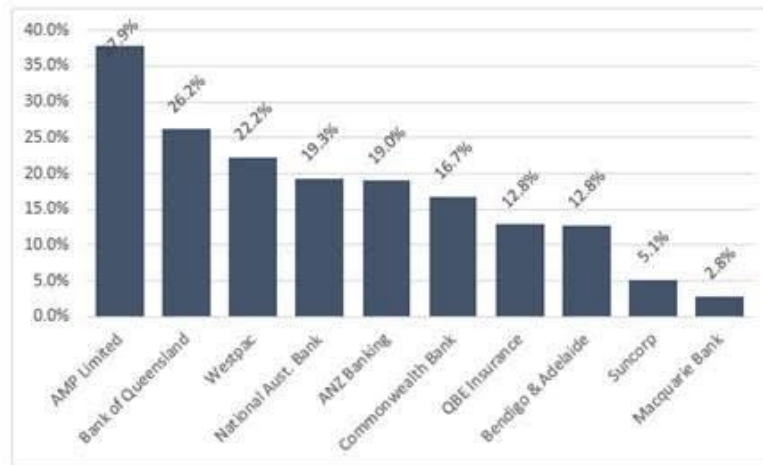
The dividend yield attached to many stocks in the sector could be a significant draw for yield-hungry investors.



**Forecast total return for major ASX-listed financial stocks**

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)	Franking (%)
AMP	AMP Limited	4.12	5.39	30.8%	0.29	7.0%	<b>37.9%</b>	90%
BOQ	Bank of Queensland	10.21	12.09	18.4%	0.79	7.7%	<b>26.2%</b>	100%
WBC	Westpac	29.04	33.58	15.6%	1.92	6.6%	<b>22.2%</b>	100%
NAB	National Aust. Bank	29.03	32.65	12.5%	1.98	6.8%	<b>19.3%</b>	100%
ANZ	ANZ Banking	27.5	31.11	13.1%	1.61	5.9%	<b>19.0%</b>	100%
CBA	Commonwealth Bank	72.69	80.52	10.8%	4.33	6.0%	<b>16.7%</b>	100%
QBE	QBE Insurance	10.2	11.06	8.4%	0.45	4.4%	<b>12.8%</b>	30%
BEN	Bendigo & Adelaide	10.56	11.21	6.2%	0.70	6.6%	<b>12.8%</b>	100%
SUN	Suncorp	14.09	14.09	0.0%	0.72	5.1%	<b>5.1%</b>	100%
MQG	Macquarie Bank	108.29	106.26	-1.9%	5.08	4.7%	<b>2.8%</b>	45%

Source: IRESS, compiled by State One Stockbroking  
 Note: Share price and Target prices as at 4 May 2018



**Economic Calendar 7/05/2018 – 11/05/2018**

Monday May 07 2018		Actual	Previous	Consensus	Forecast
07:50 AM	JP <b>BoJ Monetary Policy Meeting Minutes</b>				
09:30 AM	AU <b>NAB Business Confidence APR</b>		7	+	9
12:00 PM	ID <b>GDP Growth Rate YoY Q1</b>		5.19%	-0.3%	5.2%
Tuesday May 08 2018		Actual	Previous	Consensus	Forecast
11:00 AM	CN <b>Balance of Trade APR</b>		\$-4.98B	\$24.7B	\$25B
11:00 AM	CN <b>Exports YoY APR</b>		-2.7%	6.3%	
11:00 AM	CN <b>Imports YoY APR</b>		14.4%	16%	
02:00 PM	DE <b>Balance of Trade MAR</b>		€18.4B	+	€24.5B
Wednesday May 09 2018		Actual	Previous	Consensus	Forecast
08:30 AM	AU <b>Westpac Consumer Confidence Index MAY</b>		102.4	+	102.8
08:30 AM	AU <b>Westpac Consumer Confidence Change MAY</b>		-0.6%	+	0.4%
	MY <b>General Elections</b>				
Thursday May 10 2018		Actual	Previous	Consensus	Forecast
09:30 AM	CN <b>Inflation Rate YoY APR</b>		2.1%	1.9%	2%
04:30 PM	GB <b>Balance of Trade MAR</b>		£-0.965B	+	£-2.9B
07:00 PM	GB <b>BoE Interest Rate Decision</b>		0.5%	0.5%	0.5%
07:00 PM	GB <b>BoE Quantitative Easing</b>		£435B	£435B	£435B
08:30 PM	US <b>Inflation Rate YoY APR</b>		2.4%	2.5%	2.5%
08:30 PM	US <b>Core Inflation Rate YoY APR</b>		2.1%	2.2%	2.1%
Friday May 11 2018		Actual	Previous	Consensus	Forecast
08:30 PM	CA <b>Employment Change APR</b>		32.3K	15K	13.5K
08:30 PM	CA <b>Unemployment Rate APR</b>		5.8%	5.8%	5.8%
10:00 PM	US <b>Michigan Consumer Sentiment Prel MAY</b>		98.8	98.5	98

Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

## Economic Calendar 14/05/2018 – 18/05/2018

Tuesday May 15 2018			Actual	Previous	Consensus	Forecast	
02:00 PM	DE	GDP Growth Rate QoQ Flash Q1	0.6%	0.4%	0.4%		
02:00 PM	DE	GDP Growth Rate YoY Flash Q1	2.9%	+	2.8%		
04:30 PM	GB	Unemployment Rate MAR	4.2%	+	4.2%		
04:30 PM	GB	Claimant Count Change APR	11.6K	+	12.5K		
05:00 PM	EA	GDP Growth Rate YoY 2nd Est Q1	2.8%	2.5%	2.5%		
05:00 PM	EA	GDP Growth Rate QoQ 2nd Est Q1	0.7%	0.4%	0.4%		
05:00 PM	DE	ZEW Economic Sentiment Index MAY	-8.2	+	-4.4		
08:30 PM	US	Retail Sales MoM APR	0.6%	+	0.2%		
Wednesday May 16 2018			Actual	Previous	Consensus	Forecast	
07:50 AM	JP	GDP Growth Rate QoQ Prel Q1	0.4%	+	0.4%		
07:50 AM	JP	GDP Growth Annualized Prel Q1	1.6%	+	2.38%		
	EA	ECB Non-Monetary Policy Meeting					
Thursday May 17 2018			Actual	Previous	Consensus	Forecast	
09:30 AM	AU	Unemployment Rate APR	5.5%	+	5.5%		
09:30 AM	AU	Employment Change APR	4.9K	+	30.4K		
09:00 PM	RU	GDP Growth Rate YoY Prel Q1	0.9%	+	1.1%		
Friday May 18 2018			Actual	Previous	Consensus	Forecast	
07:30 AM	JP	Inflation Rate YoY APR	1.1%	+	1.4%		
08:30 PM	CA	Inflation Rate YoY APR	2.3%	+	2.3%		

Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

## All Ords Top 10 Week Ending 4 May 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
SWM	Seven West Media Ltd	27.3	IVC	InvoCare Limited	-11.7
WTC	Wisetech Global Ltd	23.9	GTU	Gateway Lifestyle	-9.0
MYX	Mayne Pharma Ltd	13.6	JBH	JB Hi-Fi Limited	-7.9
CGF	Challenger Limited	12.2	GNC	GrainCorp Limited	-7.7
GXY	Galaxy Resources	12.2	DMP	Domino Pizza Enterpr	-4.1
MIN	Mineral Resources.	11.2	APO	Apn Outdoor Grp	-3.5
QAN	Qantas Airways	10.9	ILU	Iluka Resources	-3.5
GEM	G8 Education Limited	10.6	IGO	Independence Group	-3.4
IPH	IPH Limited	9.2	WSA	Western Areas Ltd	-3.4
VOC	Vocus Group Ltd	8.3	AMC	Amcor Limited	-3.2

Source: IRESS

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