

# STATE ONE SPINNAKER

**8 April 2018**  
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## State One Research Products

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## State One Stockbroking Ltd

Head Office

Level 14, State One House

172 St George's Terrace

Perth WA 6000

Perth Tel: (+61 8) 9288 3388

Sydney Tel: (+61 2) 9024 9105

Email: [broker@stateone.com.au](mailto:broker@stateone.com.au)

Web: [www.stateone.com.au](http://www.stateone.com.au)

## Global Wrap – 8 April 2018

### Key points

1. More Trump trade threats rattle markets
2. Yen for safe haven
3. Lithium a bright spot
4. Other commodities suffer
5. *Stock analysis: How low can it go?*

### US

The selloff in US stocks reached the deepest level since early February as the White House's latest trade threats rattled global financial markets, The Australian Financial Review said.

President Donald Trump ordered a review of additional tariffs that prompted an aggressive response from China.

Fresh attempts by White House officials to tone down the bluster failed to calm nerves, with the Cboe Volatility Index back above 21.

Treasury Secretary Steven Mnuchin added to the anxiety by saying there's a "level of risk" the spat could worsen.

At the close in New York, the Dow was down 572 points or 2.3% - falling below 24,000, but closing off its intraday low.

The S&P 500 slid 2.2% and the Nasdaq tumbled 2.3%.

The yield on the 10-year US Treasury note plunged 6 basis points to 2.77%.

The US listed shares of BHP Billiton shed 1.9%, while Rio Tinto's also shed 1.9%.

The trade tensions overshadowed the latest US jobs report, which showed hiring cooled by more than forecast in March. US non-farm payrolls rose 103,000 in March, well below analyst expectations. The renewed saber rattling ended a week that started with equities tumbling amid amplified rhetoric. That gave way to a three-day rally after White House officials signalled the president's tough talk was part of a negotiating plan.

China had said on Wednesday that it would impose a 25% import tax on \$50 billion worth of US-origin products including soy beans, automotives, chemicals and airplanes, though it did not say when the proposed tax would be implemented.

China's move was in response to the [US proposing a 25% import tax on 1,300 Chinese products](#), which included unwrought aluminium and aluminium products.

A consultation process and public hearing are still required prior to implementation of the tariffs.

This coming week Producer Price Index (PPI) data will be released on Tuesday, then the Consumer Price Index (CPI) on Wednesday. Jobless claims, then import and export price data will be out on Thursday.

## Hong Kong/China

Value hunters tempted by recent declines looked to equities in Hong Kong on Friday, after the city's ties to the world's two largest economies bruised its markets over the week, Reuters reported.

The Hang Seng Index closed up 1.1%, recovering about half its losses from Wednesday, before closing for the Ching Ming, or Tomb Sweeping, Festival. The gauge, which has been trading near its lowest price-to-earnings multiple since 2016 finished the holiday-shortened week with a 0.8% decline.

Traders on the mainland were off on Friday for Ching Ming Festival, but will be back in action on Monday.

Also in China next week, CPI and PPI data will be released on Wednesday, then the trade balance on Friday

## Japan

Stocks edged down on the Tokyo Stock Exchange on Friday following the rekindling of trade tensions. The 225-issue Nikkei average lost 77.90 points, or 0.36%, to end at 21,567.52. On Thursday the key market gauge had jumped 325.87 points.

The Topix index of all first-section issues finished down 5.31 points, or 0.31%, at 1,719.30, after rising 18.48 points the previous day.

Investors shifted to a wait-and-see mode following Trump's announcement that he has instructed trade officials to consider 100 billion dollars in additional tariffs on China.

One of the few winners out of the uncertainty is the yen. It was sitting at 107.14 per dollar on Friday, up 0.2% immediately following Trump's trade war escalation. At its highest value on Friday, the yen was sitting at 107.02.

On Monday the Cabinet Office will release a key consumer confidence and the Eco Watchers survey.

## Europe

The pan-European [Stoxx 600](#) closed down by 0.35% provisionally, with most major bourses and sectors finishing in negative territory, CNBC reported.

Europe's auto stocks led the losses on Friday, down almost 1.7% amid heightened trade tensions.

Basic resources stocks, with their heavy exposure to China, were among the worst performers, down 1.6%.

[Rio Tinto](#) was among the hardest hit after Exane BNP Paribas cut its stock recommendation to a "neutral" from "outperform". Shares of the mining giant were off more than 2.3% on the news.

This Tuesday Britain's [National Institute of Economic and Social Research](#) will release its GDP estimate, followed by the UK trade balance on Wednesday.

## Australia

The Australian sharemarket ended the week 0.5% up, the best performance in four weeks, Fairfax Media reported.

On Friday the S&P/ASX 200 index was down just 0.1 points to 5788.7.

CSL and Commonwealth Bank were the biggest drags on the index. CSL dropped 0.8% to \$157.99 and CBA fell 0.4% to \$73.49.

BHP and Woodside Petroleum were among the gainers, with the shares rising 0.5% to \$28.64 and 1.1% to \$30.11, respectively.

Lithium miners were strong in early trade on the back of improved lithium prices. Galaxy Resources rose 5.2% to \$3.04, while Orocobre gained 5.7% to \$5.01.

Myer had a positive day, with investors reacting to reports that South African company Woolworths Holdings was interested in acquiring the embattled department store. Myer finished the day up 7.3% to 37¢.

ASX futures were 35 points lower or 0.6% lower to 5737

This coming week the NAB Business Conditions and Confidence indexes will be released on Tuesday. Westpac will release its Consumer Confidence survey on Wednesday.

### **Commodities**

Trump's shock announcement that the US was considering tripling tariffs is expected to reverse commodity trends.

In particular, iron ore prices had been expected to recover on Friday before news of President Trump's announcement.

Easing trade tensions in recent days had allowed iron ore to begin to make a recovery after its price had fallen over the past month.

But the surprise escalation by Trump on Friday meant that the recovery was short lived.

Iron ore is leveraged against global growth and trade war tensions have threatened to damage that growth in recent weeks.

Despite a bullish EIA report and the tightening oil market, a rising rig count and continued fears of a trade war between China and the U.S. have pushed **oil** prices downwards.

**Base metals** prices on the London Metal Exchange were mostly lower during Asian trading on Friday.

The Shanghai Futures Exchange was closed on Friday to mark the Ching Ming Festival.

**Gold** prices ended the week firmly in the middle of its near-term trading range. [June gold futures last traded](#) at \$1,334 an ounce, up 0.5% since last Friday.

Kitco said traders were watching for a further breakdown in equities or the US dollar.

### **Stock analysis for week ahead**

Trump's protectionist policies have undoubtedly rattled the stock market. At current levels of 2,662 the benchmark S&P 500 Index is some 9% below its 26 January peak of 2,873.

Over recent weeks, the market has swung between pessimism about an out-an-out trade war, and the (relative) optimism of an agreement on trade with China.

The Index is now below its longer-term support level and is testing its short-term support level.

We suggest that a break below the key 2,580 level could trigger a major sell signal.

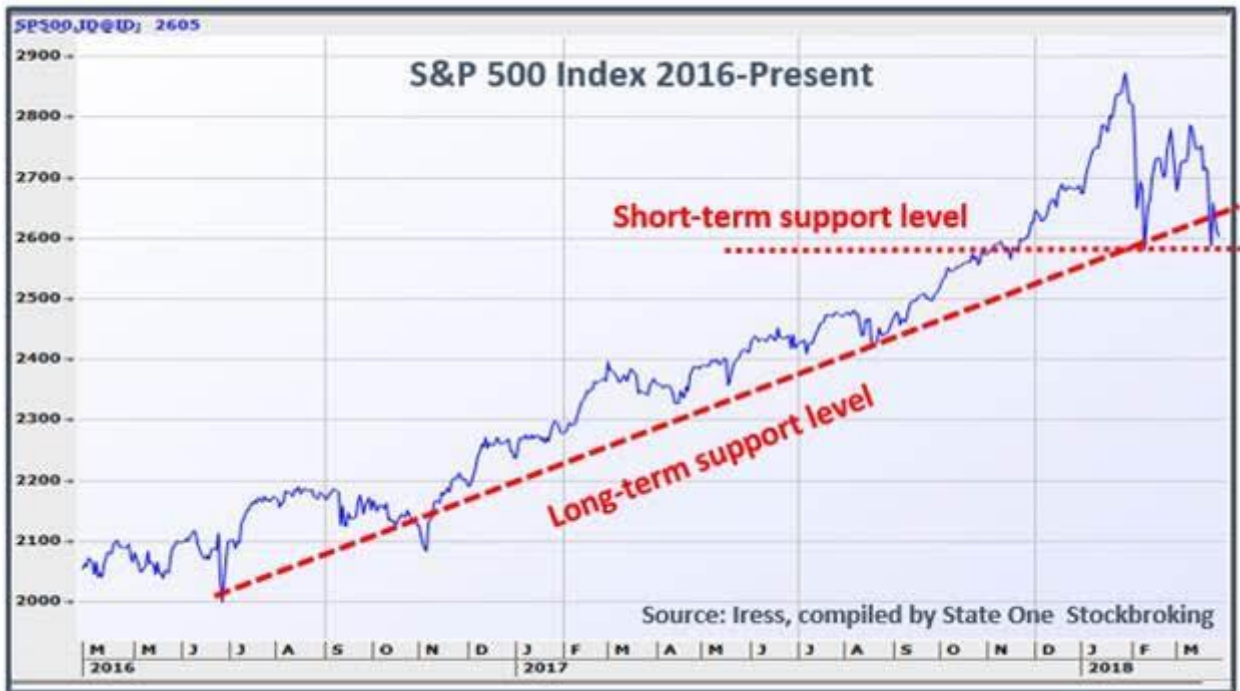
Of course, with the US market having been on a one-way ticket since early 2009, finding a support level if a serious sell-off occurs is problematic. We estimate a level of 2,100 is a potential floor level – implying an additional 20% downside potential.

Another factor negatively impacting the US market is the sell-off in the technology sector.

The so-called FAANG group (Facebook, Apple, Amazon, Netflix, Google) have underpinned the increase in the broader market, with these tech giants driving 25-50% of daily returns, and the tech weighting in the S&P 500 Index increasing from 18% to 28% over the past five years.

However, recent concerns over information privacy breaches at Facebook have led to its stock price plummeting 22% from recent highs. Meanwhile fears of increased government oversight have spilled over into the sector as a whole. We recommend that investors closely watch the US tech sector over the next quarter as a pointer for the broader US market.

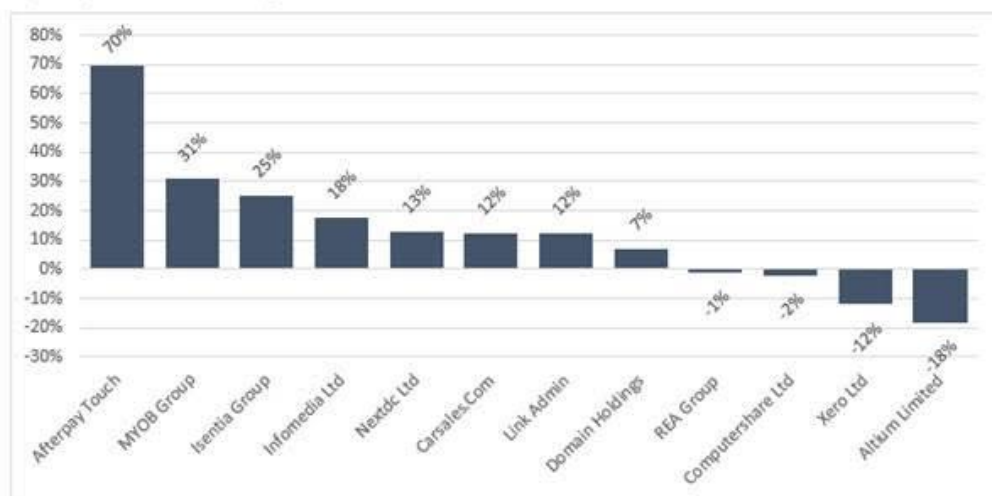
At current share price levels, Afterpay Touch (ASX: APT) offers the most upside in the ASX IT sector. Based on its IRESS consensus target price and IRESS consensus FY18E dividend yield, APT offers a potential total return of some 70%.



**Forecast total return for selected ASX-listed IT stocks**

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)
APT	Afterpay Touch	5.45	9.24	69.5%	0.00	0.0%	70%
MYO	MYOB Group	3.05	3.87	26.9%	0.12	3.9%	31%
ISD	Isentia Group	0.84	1.01	20.2%	0.04	4.8%	25%
IFM	Infomedia Ltd	0.85	0.97	14.1%	0.03	3.5%	18%
NXT	Nextdc Ltd	6.56	7.40	12.8%	0.00	0.0%	13%
CAR	Carsales.Com	13.39	14.60	9.0%	0.44	3.3%	12%
LNK	Link Admin	8.44	9.31	10.3%	0.17	2.0%	12%
DHG	Domain Holdings	3.10	3.25	4.8%	0.07	2.3%	7%
REA	REA Group	77.48	75.47	-2.6%	1.08	1.4%	-1%
CPU	Computershare Ltd	17.15	16.47	-4.0%	0.32	1.9%	-2%
XRO	Xero Ltd	34.11	30.05	-11.9%	0.00	0.0%	-12%
ALU	Altium Limited	19.79	15.93	-19.5%	0.27	1.4%	-18%

Source: IRESS, compiled by State One Stockbroking



## Economic Calendar 9/04/2018 – 13/04/2018

Monday April 09 2018		Actual	Previous	Consensus	Forecast	
01:00 PM	JP Consumer Confidence MAR		44.3	44.9	44.1	
02:00 PM	DE Balance of Trade FEB		€17.4B	+	€19.5B	
Tuesday April 10 2018		Actual	Previous	Consensus	Forecast	
09:30 AM	AU NAB Business Confidence MAR		9	12	8	
Wednesday April 11 2018		Actual	Previous	Consensus	Forecast	
08:30 AM	AU Westpac Consumer Confidence Index APR		103	+		
08:30 AM	AU Westpac Consumer Confidence Change APR		0.2%	+	103.2	
09:30 AM	CN Inflation Rate YoY MAR		2.9%	2.6%	2.6%	
04:30 PM	GB Balance of Trade FEB		£-3.074B	+	£-3.4B	
08:30 PM	US Core Inflation Rate YoY MAR		1.8%	2.1%	1.9%	
08:30 PM	US Inflation Rate YoY MAR		2.2%	2.4%	2.2%	
	EA ECB Non-Monetary Policy Meeting					
Thursday April 12 2018		Actual	Previous	Consensus	Forecast	
02:00 AM	US FOMC Minutes			+		
Friday April 13 2018		Actual	Previous	Consensus	Forecast	
11:00 AM	CN Exports YoY MAR		44.5%	10%		
11:00 AM	CN Balance of Trade MAR		\$33.74B	\$27.21B	\$30B	
11:00 AM	CN Imports YoY MAR		6.3%	10%		
10:00 PM	US Michigan Consumer Sentiment Prel APR		101.4	100.5	100	

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

## Economic Calendar 16/04/2018 – 20/04/2018

Monday April 16 2018		Actual	Previous	Consensus	Forecast	
08:30 PM	US Retail Sales MoM MAR		-0.1%	0.3%	0.4%	
Tuesday April 17 2018		Actual	Previous	Consensus	Forecast	
10:00 AM	CN GDP Growth Rate YoY Q1		6.8%	+	6.6%	
10:00 AM	CN GDP Growth Rate QoQ Q1		1.6%	+	1.70%	
04:30 PM	GB Unemployment Rate FEB		4.3%	4.4%	4.3%	
04:30 PM	GB Claimant Count Change MAR		9.2K	-5K	5.1K	
05:00 PM	DE ZEW Economic Sentiment Index APR		5.1	+	3.2	
Wednesday April 18 2018		Actual	Previous	Consensus	Forecast	
07:50 AM	JP Balance of Trade MAR		¥3B	¥-100B	¥638B	
04:30 PM	GB Inflation Rate YoY MAR		2.7%	2.8%	2.8%	
10:00 PM	CA BoC Interest Rate Decision		1.25%	1.25%	1.25%	
Thursday April 19 2018		Actual	Previous	Consensus	Forecast	
09:30 AM	AU Employment Change MAR		17.5K	20K	38K	
09:30 AM	AU Unemployment Rate MAR		5.6%	5.5%	5.4%	
Friday April 20 2018		Actual	Previous	Consensus	Forecast	
07:30 AM	JP Inflation Rate YoY MAR		1.5%	+	1.5%	
08:30 PM	CA Inflation Rate YoY MAR		2.2%	2%	1.9%	
10:00 PM	EA Consumer Confidence Flash APR		0.1	+	-0.6	

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

## All Ords Top 10 Week Ending 6 April 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
STO	Santos Ltd	16.0	ORE	Orocobre Limited	-6.5
IGO	Independence Group	8.5	NVT	Navitas Limited	-6.5
BPT	Beach Energy Limited	6.6	SIG	Sigma Health Ltd	-5.1
CGC	COSTA GROUP HOLDINGS	6.1	BRG	Breville Group Ltd	-5.0
A2M	The A2 Milk Company	5.8	MMS	McMillan Shakespeare	-4.9
SFR	Sandfire Resources	5.5	BTT	BT Investment Mngmnt	-4.7
WSA	Western Areas Ltd	5.4	SWM	Seven West Media Ltd	-4.6
APO	Apn Outdoor Grp	5.2	PTM	Platinum Asset	-4.4
SXL	Sthn Cross Media	4.8	DHG	Domain Holdings Aus	-4.3
OML	Ooh!Media Limited	4.8	PRY	Primary Health Care	-4.1

Source: IRESS



Alan Hill  
Executive Chairman  
Phone: +61 8 9288 3388  
[ahill@stateone.com.au](mailto:ahill@stateone.com.au)

Mark Sullivan  
Institutional Dealer  
Phone: +61 2 9024 9134  
[msullivan@stateone.com.au](mailto:msullivan@stateone.com.au)

Yitz Barber  
Equities Advisor  
Phone: +61 2 9024 9107  
[ybarber@stateone.com.au](mailto:ybarber@stateone.com.au)

Graeme Johnson  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3316  
[gjohnson@stateone.com.au](mailto:gjohnson@stateone.com.au)

Karen Tan  
Equities Advisor  
Phone: +61 8 9288 3303  
[ktan@stateone.com.au](mailto:ktan@stateone.com.au)

David Zhang  
Equities Advisor  
Phone: +61 2 9024 9130  
[dzhang@stateone.com.au](mailto:dzhang@stateone.com.au)

David Brennan  
Senior Investment Analyst  
Phone: +61 2 9024 9142  
[DBrennan@stateone.com.au](mailto:DBrennan@stateone.com.au)

Tammie Wong  
Equities Advisor  
Phone: +61 2 9024 9133  
[twong@stateone.com.au](mailto:twong@stateone.com.au)

Ric Heydon  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3307  
[rheydon@stateone.com.au](mailto:rheydon@stateone.com.au)

Robert Chen  
Equities Advisor  
Phone: +61 2 9024 9132  
[rchen@stateone.com.au](mailto:rchen@stateone.com.au)

Morris Levitzke  
Equities Advisor  
Phone: +61 8 9288 3315  
[mlevitzke@stateone.com.au](mailto:mlevitzke@stateone.com.au)

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