

# STATE ONE SPINNAKER

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## State One Research Products

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## Global Wrap – 15 April 2018

### Key points

1. Australian miners gain as trade tensions ease
2. China stocks fall on soft export data
3. Russian sanctions boost aluminium prices
4. Middle East tensions buoy oil
5. *Stock picks for week ahead*

### US

US stocks fell on Friday as several banking companies weighed down the major indexes on the final day of an otherwise strong week for equities, CNBC reported.

The Dow Jones industrial average fell 122.91 points to close at 24,360.14. JP Morgan Chase was the worst-performing stock in the index despite it reporting better than expected earnings, as investors saw some warning signs beneath the headline numbers.

The S&P 500 closed 0.3% lower at 2,656.30 as financials dropped 1.6%. The Nasdaq composite declined 0.5% to 7,106.65.

The indexes opened sharply higher on the back of strong earnings from some of the other big banks.

Expectations for this earnings season are high, especially for financials. According to FactSet, S&P 500 earnings are forecast to have grown by 17.1% last quarter.

Financials are expected to report earnings increases of 24%.

Bank of America, Goldman Sachs and Morgan Stanley are all scheduled to report next week.

Despite Friday's decline, the major averages posted strong gains for the week. The Dow and S&P 500 rose 1.8% and 2% this week, respectively, while the Nasdaq advanced 2.8%.

Consumer sentiment slipped in April, after recording its highest level since 2004 in March, amid concerns about President Donald Trump's trade policies on the US economy, it was reported on Friday.

The University of Michigan's mid-month report on consumer attitudes about the economy was 97.8 in mid-April, compared with 100.5 expected by a survey of Reuters economists.

The index reached 101.4 at the end of March.

Also last week it was revealed the US Congressional Budget Office is predicting the US budget deficit will surpass \$US1 trillion by 2020, with net interest outlays to surpass defence spending by 2023.

CBO chief Keith Hall told the Senate Budget Committee on Wednesday that the US's net interest payments would triple in the next 10 years.

Net interest payments are expected to reach just under \$US1 trillion by 2028 as the US's public debt reaches \$US28.7 trillion in the same year.

"Whatever the fix is going to be, it needs to be something that's pretty big," Hall said.

This coming week, amid a slew of profit reports, retail sales figures will be released on Monday, followed by building data on Tuesday and jobless figures on Thursday.

## China

China stocks fell on Friday as softer-than-expected exports in March rekindled worries over the health of the world's second largest economy amid rising trade tensions with the US, Reuters reported.

The blue-chip CSI300 index closed down 0.7% at 3,871.14, while the Shanghai Composite Index declined 0.7% to 3,159.05.

For the week, CSI300 gained 0.4%, while SSEC was up 0.9%.

March exports unexpected fell 2.7% from a year earlier, the first drop since February last year, while imports grew 14.4%, more than expected, customs data showed on Friday.

That left the country with a rare [trade](#) deficit of \$4.98 billion for the month, also the first since last February.

Investors will be watching retail sales and GDP figures to be released on Tuesday then the house price index on Wednesday.

## Japan

Stocks rebounded on the Tokyo Stock Exchange on Friday, supported by an overnight rally in US equities.

The 225-issue Nikkei average added 118.46 points, or 0.55%, to end at 21,778.74.

The gains came after Wall Street rose on Thursday due mainly to easing concerns about the geopolitical risks over Syria.

Investors also took heart from the yen's weakening against the dollar.

The US president's reported intention to study his country's possible return to Trans-Pacific Partnership trade pact talks also helped improve market sentiment by easing concerns over protectionism, the official said.

The trade balance and industrial production figures will be released on Tuesday, then CPI on Thursday.

## Europe

The European markets spent most of Friday's session trading in the green. Traders were encouraged after Citigroup and Wells Fargo reported better than expected financial results.

However a weaker than expected US consumer sentiment report had a negative impact on investor sentiment.

The pan-European Stoxx Europe 600 index advanced 0.12%. The Euro Stoxx 50 index of eurozone bluechip stocks also increased 0.12%, while the Stoxx Europe 50 index, which includes some major UK companies, added 0.03%.

The FTSE 100 of the UK gained 0.09% while the DAX of Germany climbed 0.22% and the CAC 40 of France rose 0.11%.

The euro area trade surplus increased in February as the decline in imports was bigger than the fall in exports, Eurostat reported Friday.

Exports fell 2.3% in February from January. At the same time, imports declined 3.1%.

The trade surplus rose to a seasonally adjusted EUR 21 billion from EUR 20.2 billion in January.

Also on Friday data showed Germany's consumer price inflation accelerated in March. Inflation rose to 1.6% from 1.4% in February.

A key euro zone economic sentiment index will be released on Tuesday, then UK and euro zone CPI on Wednesday and the euro zone current account on Thursday.

## Australia

The Australian sharemarket enjoyed a positive week, with miners leading the market higher as trade tensions eased between the US and China.

The S&P/ASX 200 index finished up 13.6 points to 5829.1 on Friday, for a 0.7% advance over the week, Fairfax Media reported.

The weekly gains followed Chinese President Xi Jinping on Tuesday promising to drop tariffs on the auto industry and in turn receiving praise from US President Trump.

Markets also shrugged off the threat of US missile strikes against Syria by President Trump, which had pressured the Australian market midweek.

Miners were the best performers by sector over the week. BHP finished every day in the black and rose 3.9 % to \$29.76.

Rio Tinto was up 6.8 % to \$78.18 for the week, also recording five consecutive days of growth.

US Treasury sanctions on Russia drove up **aluminium** prices worldwide helping shares in Alumina rise 8.4 % to \$2.59 this week.

Infigen Energy was one of the biggest movers of the week after global infrastructure giant Brookfield acquired a 9% stake in the company. Its shares rose 16.7% for the week to \$0.70.

Seven West Media's announcement that it had acquired the free-to-air Australian cricket rights for the next six years was received well by investors. They were up 12.6% to \$0.58.

Meanwhile the Reserve Bank of Australia's Financial Stability Review revealed that Australia's financial system remains "favourable". The RBA said that the strength of the banks was particularly of note with capital ratios well above their international peers and continuing to rise. The banks are close to reaching targets set by APRA last year, well before they were due to come into force in 2020.

However the high level of household indebtedness could be leaving Australia vulnerable to any negative shocks to the economy and it will likely take many years for debt levels to ease.

The RBA also said that any further cuts to the **cash rate** are unlikely and that any future rate increase would affect households much sooner.

This Tuesday the RBA will release its minutes from its monthly meeting earlier this month and employment figures will be out on Thursday.

## Commodities

**Oil** prices added to their gains on Friday, with Brent holding at multi-year highs. The possible trade war poses a threat to demand, but for now, the market is focused on geopolitical dangers in the Middle East. Oil prices are set to post their strongest weekly gain since July.

On Friday oil prices were set to post their largest weekly gain since July, with Brent breaking \$72.

**Copper** and **iron ore** eked out small price gains on Friday after customs data showed imports of raw materials by China improved during the first quarter, [mining.com](http://mining.com) reported.

China's iron ore imports in March improved slightly in March from February thanks to the restart of steel mills that were idled during the winter months as part of a government drive against pollution.

However, as with copper, the strong iron ore imports have caused growing stockpiles at Chinese ports which have remained near all-time highs.

According to Custeel's survey of 42 ports in China, the total port inventory stood at 158.1m tonnes on Friday.

China consumes more than two-thirds of the seaborne iron ore market and produces as much steel as the rest of the world combined.

**Gold** prices failed to hold an overnight rally in London on Friday, BullionVault reported. They dropped back to show no change for the week in dollar and euro terms as Moscow hit back at US sanctions and accused a "Russophobic campaign" of staging last weekend's chemical attack on civilians in Syria.

Trading back at \$1337 per ounce, the gold price in dollars was more than 2% below Wednesday's spike

to 20-month highs, seen as US President Donald Trump threatened to strike against Syrian government forces despite Russian military support for the regime.

### Stock picks

**Cleanaway Waste Management (ASX: CWY): Buy.** Cleanaway is a provider of waste management services in Australia, with operations in both solid and liquid waste. New management has worked to improve the cost base, capital intensity, revenue generation and the balance sheet over recent years. Going forward, we expect relatively defensive and solid earnings growth driven by organic sources, announced contract wins and the acquisition of Toxfree (including cost-out synergies). With the growing importance of sustainability in household, business and government decision-making, we expect waste management to become an increasingly valuable sector with CWY the Australian leader. At current share price levels of A\$1.44, the stock offers some 13% upside potential to its IRESS consensus target price of A\$1.63. CWY trades on a FY18E dividend yield of 1.5%.

**Link Administration (ASX: LNK): Buy.** Link is the largest provider of superannuation fund administration services to funds in the Australian super system and a leading provider of shareholder management and analytics and share registry services. We are attracted to its significant levels of recurring revenue (>70%) backed by 3-5 year contracts in a relatively defensive industry (funds administration and registry services). We believe the market's view on LNK's core Fund Administration business being ex-growth is too bearish. We think it will at least grow at inflation levels from here. Moreover, the synergy target from the CAS acquisition of £25m would appear to be conservative. Trading on a 16x FY19F PE (first full year of CAS acquisition), we think LNK is inexpensive for a stock of its quality. At current share price levels of A\$8.55, the stock offers some 9% upside potential to its IRESS consensus target price of A\$9.31. LNK trades on a FY18E dividend yield of 2.1%.

**BHP Billiton (ASX:BHP): Buy.** BHP is the world's largest diversified resources company, with a large portfolio of diversified mining and energy interests. On recent selling pressure we step up our Add rating conviction, with the global diversified miner benefitting from a supportive commodity pricing environment. Stronger certainty of earnings and lower capital expenditure commitments have resulted in BHP stepping up shareholder returns in recent periods, a trend that is set to accelerate with BHP preparing to divest its US onshore oil & gas business. BHP asserts itself as an attractive sector exposure, with group EBITDA margin stable at an impressive 52%, balance sheet gearing down below 20%, and the prospect for excess cash flow being returned to shareholders. At current share price levels of A\$29.80, the stock offers some 6% upside potential to its IRESS consensus target price of A\$31.43. BHP trades on a FY18E dividend yield of 5.1%.





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

Monday April 16 2018		Actual	Previous	Consensus	Forecast	
<b>08:30 PM</b>	US Retail Sales MoM MAR		-0.1%	0.4%	0.4%	
Tuesday April 17 2018		Actual	Previous	Consensus	Forecast	
<b>10:00 AM</b>	CN GDP Growth Rate YoY Q1		6.8%	6.7%	6.7%	
<b>10:00 AM</b>	CN GDP Growth Rate QoQ Q1		1.6%	1.5%	1.5%	
<b>04:30 PM</b>	GB Unemployment Rate FEB		4.3%	4.3%	4.3%	
<b>04:30 PM</b>	GB Claimant Count Change MAR		9.2K	5K	5.1K	
<b>05:00 PM</b>	DE ZEW Economic Sentiment Index APR		5.1	-1.6	1.5	
Wednesday April 18 2018		Actual	Previous	Consensus	Forecast	
<b>07:50 AM</b>	JP Balance of Trade MAR		¥3B	¥498B	¥638B	
<b>04:30 PM</b>	GB Inflation Rate YoY MAR		2.7%	2.7%	2.8%	
<b>10:00 PM</b>	CA BoC Interest Rate Decision		1.25%	1.25%	1.25%	
Thursday April 19 2018		Actual	Previous	Consensus	Forecast	
<b>09:30 AM</b>	AU Employment Change MAR		17.5K	20K	38K	
<b>09:30 AM</b>	AU Unemployment Rate MAR		5.6%	5.5%	5.4%	
Friday April 20 2018		Actual	Previous	Consensus	Forecast	
<b>07:30 AM</b>	JP Inflation Rate YoY MAR		1.5%	1.8%	1.5%	
<b>08:30 PM</b>	CA Inflation Rate YoY MAR		2.2%	2.4%	1.9%	
<b>10:00 PM</b>	EA Consumer Confidence Flash APR		0.1	0.1	-0.6	

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

**Economic Calendar 23/04/2018 – 27/04/2018**

Monday April 23 2018		Actual	Previous	Consensus	Forecast	
03:30 PM	DE Markit Manufacturing PMI Flash APR		58.2	+	58.2	
10:00 PM	US Existing Home Sales MAR		5.54M	5.5M	5.49M	
Tuesday April 24 2018		Actual	Previous	Consensus	Forecast	
09:30 AM	AU Inflation Rate YoY Q1		1.9%	2%	2%	
04:00 PM	DE Ifo Business Climate APR		114.7	114.8	114.35	
10:00 PM	US New Home Sales MAR		0.618M	0.629M	0.615M	
Thursday April 26 2018		Actual	Previous	Consensus	Forecast	
07:00 AM	KR GDP Growth Rate QoQ Adv Q1		-0.2%	+	0.50%	
07:00 AM	KR GDP Growth Rate YoY Adv Q1		2.8%	+	2.9%	
02:00 PM	DE GfK Consumer Confidence MAY		10.9	+	10.8	
07:45 PM	EA ECB Interest Rate Decision		0.0%	+	0.0%	
08:30 PM	EA ECB Press Conference			+		
08:30 PM	US Durable Goods Orders MoM MAR		3.1%	0.3%	0.09%	
Friday April 27 2018		Actual	Previous	Consensus	Forecast	
07:01 AM	GB GfK Consumer Confidence APR		-7	+	-11	
07:30 AM	JP Unemployment Rate MAR		2.5%	2.6%	2.5%	
11:00 AM	JP BoJ Interest Rate Decision		-0.1%	+	-0.1%	
11:00 AM	JP BoJ Quarterly Outlook Report			+		
01:30 PM	FR GDP Growth Rate QoQ 1st Est Q1		0.7%	0.6%	0.4%	
03:00 PM	ES GDP Growth Rate YoY Flash Q1		3.1%	3.2%	2.9%	
03:00 PM	ES GDP Growth Rate QoQ Flash Q1		0.7%	0.7%	0.7%	
03:55 PM	DE Unemployment Rate APR		5.3%	5.3%	5.3%	
03:55 PM	DE Unemployment Change APR		-19K	-15K	-14.7K	
04:30 PM	GB GDP Growth Rate YoY Prel Q1		1.4%	+	1.5%	
04:30 PM	GB GDP Growth Rate QoQ Prel Q1		0.4%	+	0.4%	
05:00 PM	EA Business Confidence APR		1.34	1.39	1.27	
08:30 PM	US GDP Growth Rate QoQ Adv Q1		2.9%	2.5%	2.2%	

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

## All Ords Top 10 Week Ending 13 April 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
IFN	Infigen Energy	16.7	NAN	Nanosonics Limited	-7.4
SWM	Seven West Media Ltd	12.6	HVN	Harvey Norman	-5.6
BPT	Beach Energy Limited	9.7	NHF	NIB Holdings Limited	-5.0
FBU	Fletcher Building	8.9	A2M	The A2 Milk Company	-4.3
AWC	Alumina Limited	8.4	GXY	Galaxy Resources	-4.3
BSL	BlueScope Steel Ltd	7.8	IVC	InvoCare Limited	-4.1
SGM	Sims Metal Mgmt Ltd	7.7	FPH	Fisher & Paykel H.	-4.1
RIO	Rio Tinto Limited	6.8	FLT	Flight Centre Travel	-4.0
WOR	WorleyParsons Ltd	6.7	MYX	Mayne Pharma Ltd	-3.5
ILU	Iluka Resources	6.6	NVT	Navitas Limited	-3.4

Source: IRESS



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