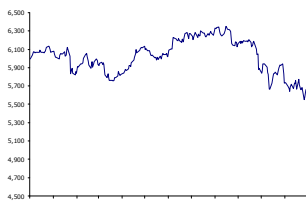


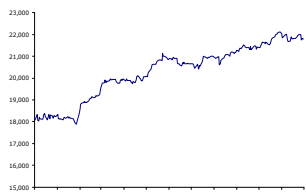
STATE ONE SPINNAKER

16 December 2018
Issue 440

12 month XJO chart



12 month Dow Jones chart



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Global Wrap – 16 December 2018

World Markets	16/12/2018	9/12/2018	Wkly Chg	Mthly Chg	Yearly Chg
ASX 200	5602	5681	-1.4%	-0.7%	1.1%
Dow Jones	21798	21988	-0.9%	-1.0%	18.0%
Nasdaq	5284	5284	0.0%	-0.2%	21.9%
S&P 500	2600	2633	-1.3%	-1.9%	15.7%
FTSE 100	6845	6778	1.0%	-2.9%	-1.2%
DAX30	10866	10788	0.7%	-3.4%	-16.9%
Shanghai Composite	2594	2585	0.4%	-2.0%	-19.3%
Nikkei 225	21375	21220	0.7%	-1.3%	13.9%
Hang Seng	26095	26064	0.1%	0.5%	14.1%
Currency					
AUD/USD	0.7183	0.7189	-0.1%	-0.7%	-6.0%
Commodities					
Oil (\$/bbl)	51.1	50.9	0.4%	-5.1%	-10.9%
Gas (\$/gal)	3.6	4.5	-19.7%	-19.4%	23.1%
Iron Ore (\$/t)	0.0	53.9	-100.0%	-100.0%	-100.0%
Copper (\$/t)	6104	6173	-1.1%	-2.2%	4.6%
Lead (\$/t)	1927	1965	-1.9%	-1.1%	-17.3%
Zinc (\$/t)	2664	2709	-1.7%	-0.2%	-2.9%
Aluminium (\$/t)	1908	1962	-2.8%	-1.9%	10.2%
Nickel (\$/t)	10740	10815	-0.7%	-3.1%	-5.5%
Tin (\$/t)	19365	18930	2.3%	-0.7%	-9.5%
Gold (\$/oz)	1241	1253	-0.9%	1.2%	5.9%
Silver (\$/oz)	14.6	14.7	-0.4%	1.0%	-14.4%
Platinum (\$/oz)	785	790	-0.6%	-7.5%	-16.3%
Wheat (\$/t)	528.750	531.500	-0.5%	4.3%	29.5%

Source: Iress

Global Wrap

Key points

- 1. Stock analysis: Australian Equities Not Overvalued - RBA**
- 2. Chinese, Euro data dampens markets**
- 3. Oil and Aussie iron ore stocks advance**

US

US stocks fell 0.8% on Friday, as weak economic data from China and Europe exacerbated global growth fears and added to nerves about the US-China trade talks, Reuters reported.

Weak monthly retail sales growth and industrial output numbers from China, combined with sluggish Euro zone business expansion as well as disappointing economic data from France and Germany, weighed on sentiment.

Investors also shrugged off news that Beijing would suspend additional tariffs on US-made vehicles and auto parts for three months starting 1 January as well as data that core US retail sales accelerated in November.

The so-called FAANG group of high-growth, technology-focused stocks declined, with Facebook, Amazon, Apple, Netflix and Google owner Alphabet dropping 1.38% to 2.14%.

Johnson & Johnson tumbled 4.0% after Reuters reported the company knew for decades that asbestos lurked in its Baby Powder.

The stock was the biggest drag on the S&P 500 and Dow Industrials.

The Dow Jones Industrial Average fell 496.87 points to 24,100.51. For the year, the Dow is now down 2.5%.

The S&P 500 dropped 1.9% to 2,599.95. The broad index also closed down 2.75% for 2018.

The Nasdaq Composite pulled back 2.26% to 6,910.66. For the year, the tech-heavy index is now up just 0.11%.

Key events for investors in the days ahead:

- The Federal Reserve holds its final policy meeting of 2018 on Tuesday and Wednesday. The rate decision will be followed by a press conference with Chairman Jerome Powell. Policymakers are expected to hike interest rates another 25 basis points, but market watchers will be watching closely for clues on the pace of future hikes. Fed Chair Jerome Powell has suggested rates may be nearing a “neutral” level and financial markets have been scaling back the number of rate hikes expected next year.
- A partial US government shutdown could start next week if lawmakers and President Trump fail to resolve how much money to allocate for Trump’s wall along the Mexican border.
- US GDP will be released on Friday.

China

Stocks in Hong Kong and China fell in morning trading on Friday on the back of weak November economic data and rising diplomatic tensions between Beijing and Ottawa, The South China Morning Post reported.

China’s industrial output expanded by 5.4% in November from the same period of last year, slower than the 5.9% gain recorded in October and below the 5.9% forecast by analysts in a Reuters poll.

Retail sales grew 8.1% in November, easing from an 8.6% expansion in October and below the 8.8% expected by analysts.

The indicators reflect a “quite large” downward pressure on the economy amid “a more complicated and dire” external environment, said Mao Shengyong, a spokesman for the National Bureau of Statistics.

Market sentiment was also weighed by heightened diplomatic tensions between China and Canada, after Beijing confirmed on Thursday it had detained a second Canadian national this week.

Canadian businessman Michael Spavor is being questioned on suspicion of harming state security, according to an official news website.

The detention follows the arrest of Sabrina Meng Wanzhou, the chief financial officer of Chinese telecom giant Huawei in Vancouver on December 1.

Technology stocks declined broadly on signs that Huawei was slashing orders from one Japanese supplier of industrial robots in the wake of the arrest.

Japan

Japan's Nikkei tumbled on Friday, led by SoftBank and other large-cap stocks, hit by a dull futures and options expiry, as well as the worrisome economic indicators from China and locally.

The Nikkei share average dropped 2.0% at 21,374.83.

Japanese data to be released next week includes the trade balance on Tuesday and a Bank of Japan rate announcement on Thursday. No change expected but investors will be closely assessing the Bank's economic forecasts.

Europe

European stocks closed lower Friday as weaker-than-expected economic data heightened concerns of a slowdown in global economic growth, CNBC reported. The pan-European Stoxx 600 closed provisionally down 0.63%, with almost all sectors and major bourses in negative territory.

Along with weak figures from China, European data also disappointed, with the IHS Markit Flash Eurozone PMI index falling to 51.7 in December, its lowest level in four years.

Lacklustre data also sent the euro down, as France's "Yellow Vests" movement exacerbated a [decline](#) in the region's PMI data to the lowest in more than four years.

The pound also slid after European leaders [rebuffed](#) Prime Minister Theresa May's pleas to help her sell her Brexit agreement to a sceptical British parliament.

Growth concerns came back into focus midweek after European Central Bank President Mario Draghi said economic risks were moving to the downside. The weak readings from Europe on car sales and manufacturing simply added to the gloom.

This coming week a key event on investors' watch lists will be the publication of Brexit preparation documents on Wednesday, along with British CPI. The Bank of England's rate decision will be announced on Thursday.

Australia

Australian shares ended the week lower on Friday, weighed by the major banks as the market struggled to rebound from a big sell-off on Monday, The Australian Financial Review reported.

The S&P/ASX 200 Index closed 79.5 points or 1.4% lower this week at 5602. The broader All Ordinaries slid 79.1 points or 1.4% to 5678.8.

The major banks weighed the index this week, led by Westpac which fell 3.3% to \$24.88. At the company's annual general meeting on Wednesday, shareholders voted down executive bonuses, with almost two thirds of investing rejecting the bank's remuneration report.

Commonwealth Bank shares fell 2.2% to \$68.81, ANZ closed 3.5% lower at \$24.80 and NAB slid 1.3% to \$23.69.

Outside the major banks, the rest of the financial sector was also weaker. QBE Insurance closed the week 5.1% lower at \$10.14, Suncorp Group slid 2.2% to \$13.02 and Insurance Australian Group slipped 2.2% to \$6.96.

The telcos were spooked by a statement from the Australian Competition and Consumer Competition which cast doubt over the future of the \$15 billion merger between Vodafone Hutchison Australia and TPG Telecom.

ACCC chairman Rod Sims said the deal would lead to a "substantial lessening of competition". TPG Telecom fell 14.5% to \$6.30 and Vodafone Hutchison Australia owner Hutchison Telecommunications closed flat this week to 12.5¢.

Telstra shares also fell this week, down 6.8% to \$2.87.

The major resource stocks closed higher this week as the prices of oil and iron ore advanced, recovering from a poor month for both commodities. BHP rose 3.9% to \$32.40, Rio Tinto climbed 3.1% to \$74.57 and South32 advanced 6.1% to \$3.28. Whitehaven Coal shares were also higher, rising 6.9% to \$4.64 this week.

Sigma Healthcare shares rose 27.5% after it announced it had received a takeover offer via scheme of arrangement from rival Australian Pharmaceutical Industries (API). API also increased its stake in the

company by 8% and now holds 12.95% of shares in Sigma. API's shares closed the week 7.8% higher at \$1.60.

The Reserve Bank of Australia's December meeting minutes will be released this coming Tuesday and employment figures on Thursday.

Commodities

Natural gas has slowly been gaining as a percentage of US power generation, offsetting a slowing in the use of coal. Nuclear energy's shares has also fallen in the past year while the share of hydro power has also slid in the past year.

The power landscape has changed dramatically in the past 10 years. While coal represented close to 50% of all power generation in September 2008, it now accounts for just 27.1%. During that same period, natural gas has grown its share considerably, almost doubling its contribution to overall power generation in the past decade.

Saudi Arabia announced on Thursday it would limit oil exports to refiners in the US from January in order to limit build-ups in US oil stockpiles.

The move gave oil prices a small boost on Thursday, with Brent crude rising 2.8% to \$US60.82.

Also supporting the price move, the International Energy Agency said that OPEC's oil production could slide more than originally expected during the first quarter of 2019 with unplanned production losses coming from Iran and Venezuela which are both struggling to add supply to the market for varying reasons.

Gold fell to its lowest in more than a week on Friday and was on track to mark its biggest weekly decline in more than a month, as the dollar climbed to a 19-month high on robust US economic data ahead of a US Federal Reserve meeting next week.

The dollar rose after data showed US consumer spending appeared to gather momentum while industrial production rebounded in November.

Australian Equities Not Overvalued: RBA

The Reserve Bank of Australia says Australian equities are not overvalued and highlighted the outperformance of equities compared to other asset classes over time.

Speaking at the Australasian Finance and Banking conference in Sydney on Thursday, the central bank's head of domestic markets, Marion Kohler, said there was no reason to view local shares as overvalued.

"In the global low-interest environment of recent years, some commentators, including the Reserve Bank, have raised the prospect that this has led to a 'search for yield' by global investors, where they bid up the price of risky assets and thus increase the risk of a sharp correction down the road," she said. "If you had put \$100 into the equity market in 1900 in a portfolio that tracked the stock market index, you would have more than \$100,000 today."

"One simple way of measuring this for the equity market is a price-to-earnings ratio. By this measure, Australian equities are not showing signs of heightened valuations." Dr Kohler attached a graph to her presentation showing that Australia's price-to-earnings ratio was much lower than that of the US. She said the local sharemarket had been a good option for investors, with strong returns available over the long-term compared to bonds and bank deposits. "Over the long run, equities have been worth much more to investors than other investment options. They have returned about 5 percentage points more than long-term bonds on average each year," she said. "This accumulates to a very large amount of money over a long period of time. If you had put \$100 into the equity market in 1900 in a portfolio that tracked the stock market index, you would have over \$100,000 today after adjusting for inflation; this is more than 100 times what you would have earned from a government bond or a bank deposit."

Since 1993, Australia has had a higher total return on equities than the UK, European and World MSCI indices, which Dr Kohler believes is due in part to franking credits.

"Over the past 25 years Australian stock prices have gone up a bit less than the rest of the world, particularly the US," she said. "But Australian companies pay high dividends, due in part to the specific tax treatment they receive. I am referring to franking credits, which were initially introduced in 1987. Taking this into account, Australian stocks have generated above-average returns over the past 25 years."

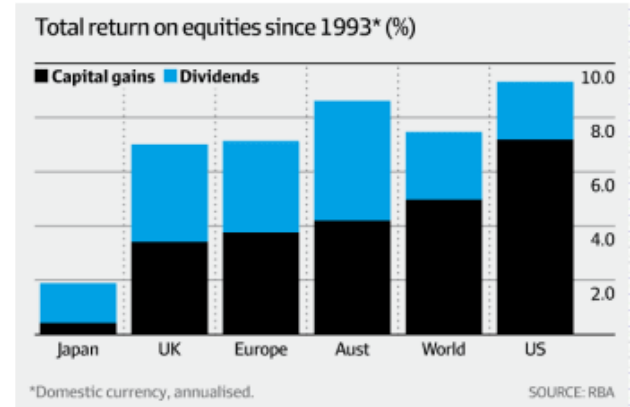
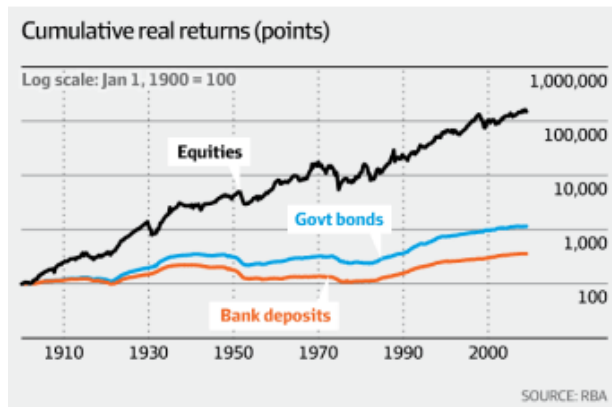
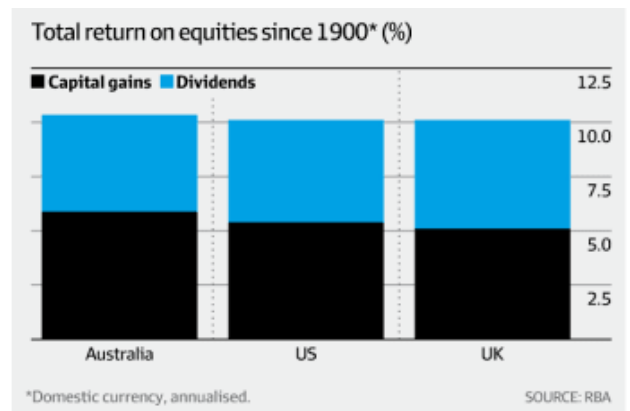
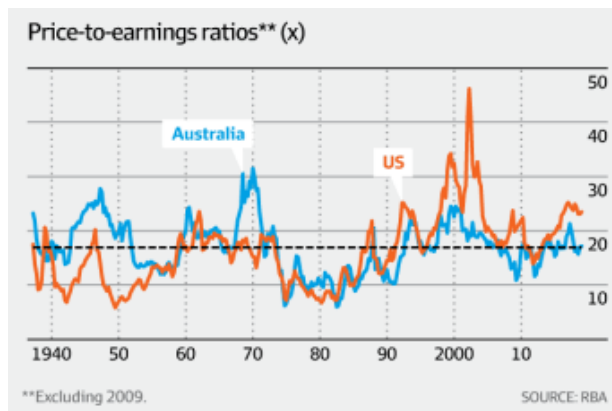
Dr Kohler sounded one note of caution around equity markets in her speech, however, highlighting the risks investors face when investing in shares and pointing to the huge losses suffered by equity investors during the global financial crisis.

"The equity market is more volatile than many other markets. Average volatility in the returns generated by equities is double that of bonds," she said. "This means that at any point in time, investors get a return

that can be very different from the average return. Developments such as the global financial crisis have emphasised this. In the middle of the financial crisis, share prices fell by around 50%. If you had a superannuation portfolio based on equities, the value of your retirement funds would have declined significantly, and remained lower for quite some time."

Dr Kohler also discussed substantial shifts in market composition, noting the weighting of the resource sector in the overall market has fluctuated during the past five decades. "The resources sector has tended to expand and contract with mining booms and commodity prices," she said. "During the mining boom of the 2000s, the share of the stock market capitalisation accounted for by resources companies doubled over a period of about five years. But this pales in comparison with the experience of the late 1960s boom, where the resources sector was worth at its peak in 1970 around 65% of the exchange by market capitalisation."

Source: AFR, 14 Dec 2018



Economic Calendar 17/12/2018 – 21/12/2018

Tuesday December 18 2018			Actual	Previous	Consensus
08:30 AM	AU	RBA Meeting Minutes			
05:00 PM	DE	Ifo Business Climate DEC		102	101.7
Wednesday December 19 2018			Actual	Previous	Consensus
07:50 AM	JP	Balance of Trade NOV		¥-449B	¥-603B
05:30 PM	GB	Inflation Rate YoY NOV		2.4%	2.3%
09:30 PM	CA	Inflation Rate YoY NOV		2.4%	1.9%
Thursday December 20 2018			Actual	Previous	Consensus
03:00 AM	US	FOMC Economic Projections			
03:30 AM	US	Fed Press Conference			
08:00 PM	GB	BoE Quantitative Easing		£435B	£435B
08:00 PM	GB	MPC Meeting Minutes			
Friday December 21 2018			Actual	Previous	Consensus
07:30 AM	JP	Inflation Rate YoY NOV		1.4%	
08:01 AM	GB	GfK Consumer Confidence DEC		-13	-14
03:00 PM	DE	GfK Consumer Confidence JAN		10.4	10.3
09:30 PM	US	Durable Goods Orders MoM NOV		-4.4%	1.7%
09:30 PM	US	Personal Income MoM NOV		0.5%	0.3%
09:30 PM	US	Personal Spending MoM NOV		0.6%	0.3%
11:00 PM	EA	Consumer Confidence Flash DEC		-3.9	-4.3

Source: www.tradingeconomics.com

Economic Calendar 24/12/2018 – 28/12/2018

Friday December 28 2018			Actual	Previous	Consensus
01:00 PM	DE	Inflation Rate YoY Prel DEC		2.3%	

Source: www.tradingeconomics.com

All Ords Top 10 Week Ending 14 December 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
SIG	Sigma Health Ltd	27.5	TPM	TPG Telecom Limited	-14.5
NHC	New Hope Corporation	10.1	DMP	Domino Pizza Enterpr	-12.3
SYR	Syrah Resources	9.1	NEC	Nine Entertainment	-11.3
API	Australian Pharm.	7.8	VOC	Vocus Group Ltd	-10.2
WHC	Whitehaven Coal	6.9	CSR	CSR Limited	-9.4
OZL	OZ Minerals	6.8	SWM	Seven West Media Ltd	-9.2
IFN	Infigen Energy	6.7	AHG	Automotive Holdings.	-8.5
SFR	Sandfire Resources	6.6	NVT	Navitas Limited	-7.4
S32	South32 Limited	6.1	COL	Coles Group	-7.0
DOW	Downer EDI Limited	5.9	TLS	Telstra Corporation.	-6.8

Source: IRESS

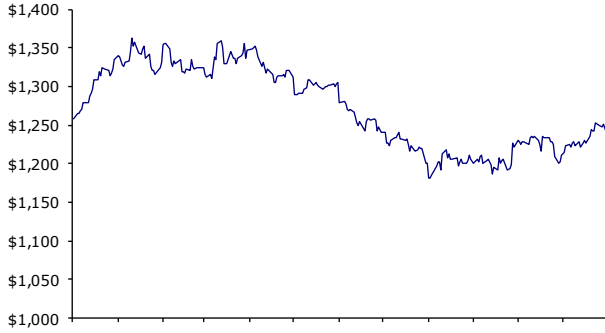
S & P Indices Week Ending 14 December 2018

S&P Indices	16/12/2018	9/12/2018	Wkly Chg	Mthly Chg	Yearly Chg
S&P 200 Energy	10010	10053	-0.4%	-0.5%	12.6%
S&P 200 Materials	10938	10776	1.5%	0.2%	10.5%
S&P 200 Industrials	5746	5799	-0.9%	1.4%	12.6%
S&P 200 Consumer Disc.	2107	2140	-1.5%	-2.7%	0.7%
S&P 200 Consumer Staples	10166	10470	-2.9%	-1.3%	18.8%
S&P 200 Healthcare	28244	28632	-1.4%	1.5%	46.5%
S&P 200 Financials	5493	5622	-2.3%	-2.4%	-13.8%
S&P 200 Info Technology	1070	1080	-0.9%	2.4%	37.6%
S&P 200 Telecommunicatic	1044	1114	-6.3%	-4.6%	-40.5%
S&P 200 Utilities	7322	7505	-2.4%	1.6%	-2.9%
S&P 200 Property Trusts	1419	1441	-1.5%	2.6%	5.8%
S&P 200 Financials ex PT	6127	6270	-2.3%	-2.4%	-13.8%

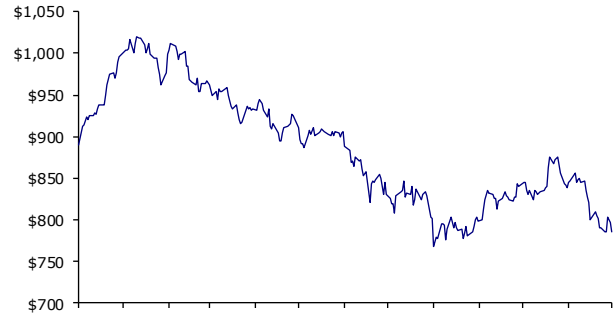
Source: IRESS

1 Year Commodity Price Charts

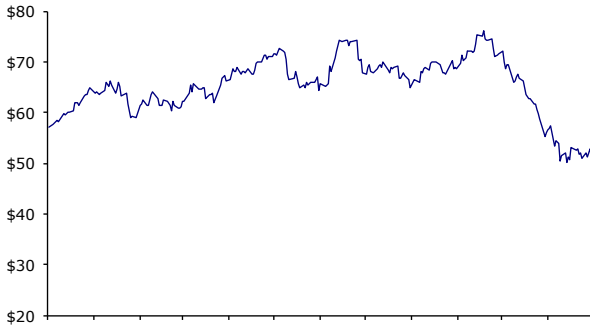
1 Year Gold



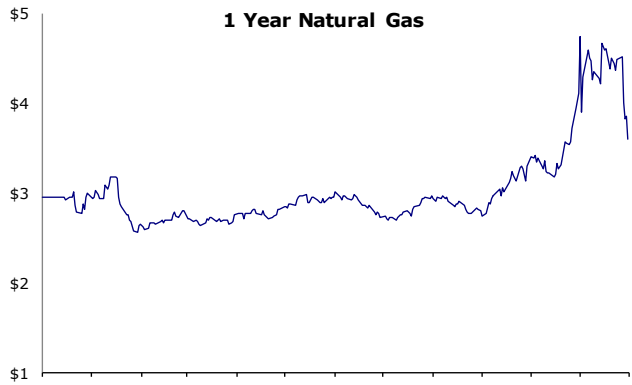
1 Year Platinum



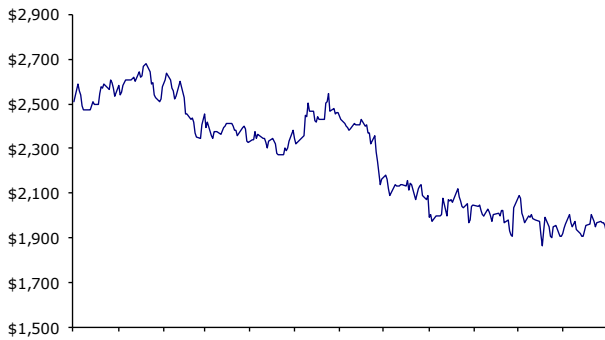
1 Year Oil



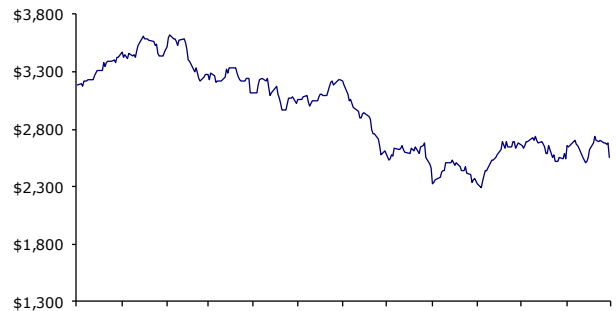
1 Year Natural Gas



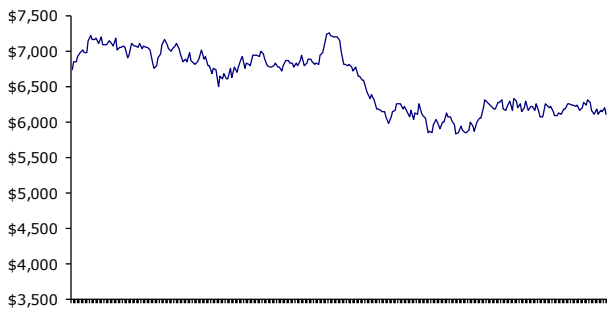
1 Year Lead



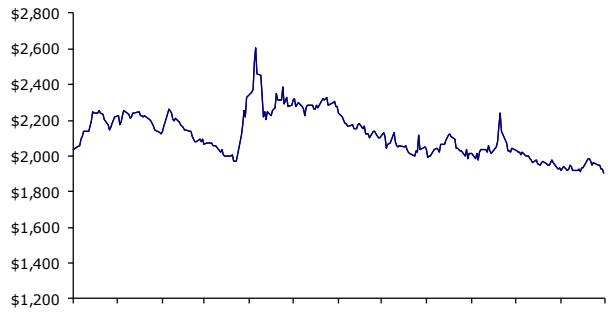
1 Year Zinc



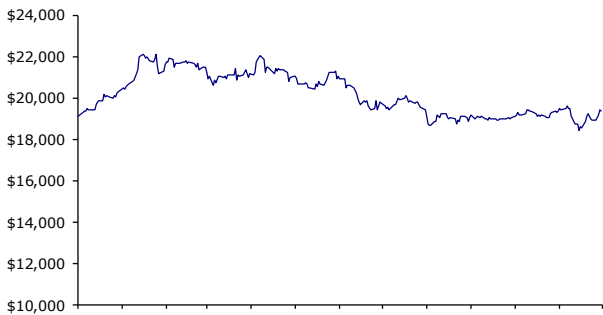
1 Year Copper



1 Year Aluminium

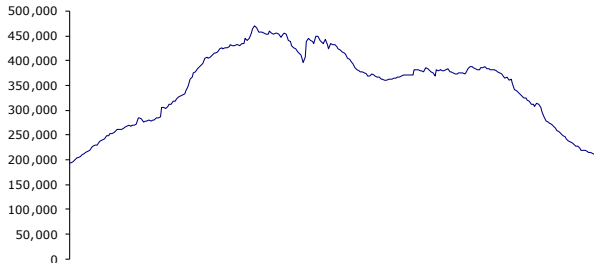


1 Year Tin

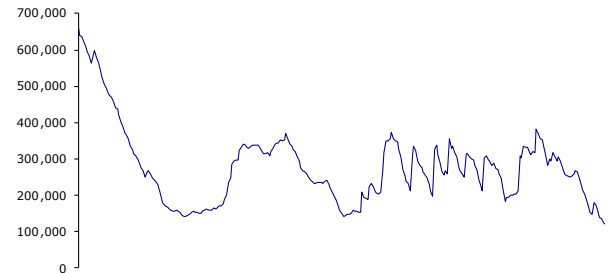


5 Year Metals Stockpiles

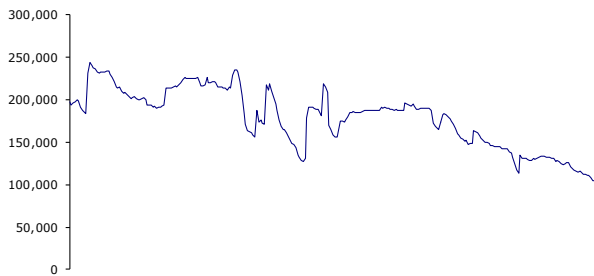
Nickel LME Stockpiles - 5 Year



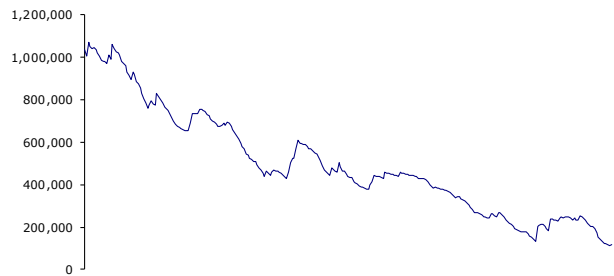
Copper LME Stockpiles - 5 Year



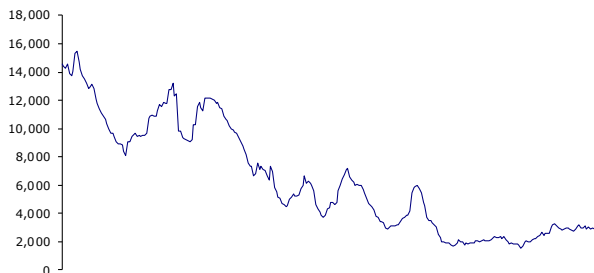
Lead LME Stockpiles - 5 Year



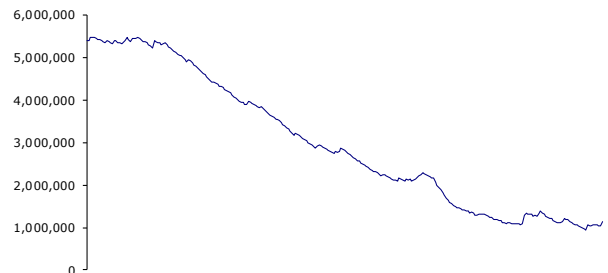
Zinc LME Stockpiles - 5 Year



Tin LME Stockpiles - 5 Year



Aluminium LME Stockpiles - 5 Year



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