

# STATE ONE SPINNAKER

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## State One Research Products

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## Global Wrap – 18 March 2018

### Key points

1. Strong US data offsets Trump turmoil
2. Trade war fears hit Asian stocks
3. G20 sets sights on cryptocurrencies
4. Oil prices buoy sector stocks
5. Stock analysis: Coles demerger

### US

Wall Street's main indexes rose on Friday after strong economic data boosted financial stocks and a jump in oil prices lifted shares of energy companies, Reuters reported.

The S&P 500 index gained 4.68 points, or 0.2%, to 2,752.01. The Dow Jones industrial average added 72.85 points, or 0.3%, to 24,946.51. The Nasdaq composite rose 0.25 points to 7,481.99. The Russell 2000 index of smaller-company stocks jumped 9.43 points, or 0.6%, to 1,586.05.

JPMorgan and Bank of America rose nearly 1%, helping the S&P financial index gain 0.55%. The top gainer on the S&P 500 was the energy index, which rose 1.2%, helped by advances in shares of Exxon and Schlumberger.

The gains come at the end of a politically rocky week, dominated by concerns of a trade war with China and political turmoil which began with the ouster of Secretary of State Rex Tillerson.

Economic data showed US factory output jumped 1.1% in February.

Additionally the University of Michigan's preliminary reading of consumer sentiment index rose more-than-expected to 102.0.

This boosted retailers Walmart and Home Depot which gained more than 1%.

In the tech sector, Adobe Systems was up 3% after the Photoshop maker topped analysts' profit and revenue estimates for the seventh straight quarter.

This Wednesday the Federal Reserve is expected to raise its interest rate from 1.5% to 1.75%. Jobless figures come out on Thursday, and housing data on Thursday and Friday.

The G20 meeting on Tuesday is set to hold two separate discussions on cryptocurrencies in an effort to seek what representatives call a "common response" on regulation.

Another hot topic will be European proposals to hit big tech companies with a digital tax. Last week it emerged that Brussels is preparing to unveil new tech-focused tax measures to stamp out avoidance. However the Trump administration has lashed out at the plans.

## China

China stocks fell on Friday and ended the week lower, dragged by consumer and material firms as reports of more chaos in the Trump administration added to concerns about rising US protectionism, the Economic Times reported.

At the close, the Shanghai Composite index was down 0.6% at 3,269.88, while the blue-chip CSI300 index fell 0.96 % to 4,056.42.

The smaller Shenzhen index ended down 0.61% and the start-up board ChiNext Composite index was weaker by 1.48%.

Material firms, including aluminium and steel makers, led the decline, after a US trade panel said imports of aluminium foil from China harmed US producers.

Reports of further chaos in the Trump administration, together with the report earlier this week that Trump is seeking to impose tariffs on up to \$60 billion of Chinese imports, cemented investor concerns that the administration is increasingly leaning towards protectionism.

In a quiet week for Chinese data the house price index will come out on Monday.

## Japan

Stocks turned lower on the Tokyo Stock Exchange on Friday, hurt by the yen's rise against the dollar. The 225-issue Nikkei average fell 127.44 points, or 0.58 %, to end at 21,676.51 after gaining 26.66 points Thursday.

The Topix index of all first-section issues closed down 6.97 points, or 0.40%, at 1,736.63. It rose 0.39 point the previous day.

Friday's setback came as the risk-off mood grew following a media report that Trump had decided to remove H.R. McMaster as his national security adviser after the sacking of Secretary of State Rex Tillerson earlier last week.

The market's downside was underpinned by bargain hunting, The Japan Times reported.

Japan's trade balance will be released on Monday, then the Leading Economic and Coincident Indexes will be out on Tuesday before the market is closed for Vernal Equinox Day on Wednesday. Its closely watched CPI and PMI will be released on Thursday.

## Europe

European stocks finished Friday's session in the black as investors tried to shake off concerns surrounding trade and political disruption in the White House, CNBC reported.

The pan-European [STOXX 600](#) provisionally ended 0.22% higher, with sectors pointing in different directions by the market close.

On the week, the STOXX 600 finished slightly under pressure, closing down 0.14%.

Britain's [FTSE 100](#) closed up 0.34%, while France's [CAC 40](#) rose 0.29% and Germany's [DAX](#) 0.36%.

On Friday it was revealed that euro zone consumer prices grew less than expected in February. The bloc of 19 countries sharing the single currency experienced inflation of 0.2% month-on-month and 1.1% year-on-year, according to data published by Eurostat.

Oil and gas was the strongest performing industry, with the sector closing up 1.46% on the back of a sharp rise in oil prices.

This coming week the euro zone trade balance and construction data will be released on Monday followed by consumer confidence data on Tuesday. Current account and PMI data will be out on Thursday as a two-day European Council meeting begins.

## Australia

[Wesfarmers' decision](#) to spin-off Coles lifted equities on Friday and trimmed the Australian sharemarket's loss this week to 0.2%, defying weakness across Asia, Fairfax Media reported.

The S&P/ASX 200 Index closed 28 points higher to 5,949.4 points, a gain of 0.5% for the final session.

Coles will be a top-30 listed company in its own right if shareholders approve the demerger from Wesfarmers. Shares in the conglomerate were leading the benchmark up 6.3% to \$43.80. Metcash shares were 5% weaker to \$3 after its supermarkets boss [Steven Cain was poached by Coles](#), where he will replace managing director John Durkan.

Premier Investments rose 6% to \$15.27 after its first-half net profit rose 9.4% to \$78.6 million, it revealed on Friday, with the Smiggle and Peter Alexander brands each posting strong double-digit sales growth.

Dairy and health foods group Freedom Foods is raising \$200 million to invest in capital upgrades and bolster its balance sheet. It resumes trading next week.

This coming week the Reserve Bank of Australia's Meeting Minutes from earlier in the month will be released on Tuesday along with our closely watched house price index.

Employment data will be out on Thursday

## Commodities

**Oil** prices jumped on Friday despite an increase in the rig count, rising US production and a subdued decline in oil inventories.

OPEC acknowledged this week that US shale production was rising quickly, and suggested that supply growth would surpass demand this year.

Trump's recent tariffs have created fears of a global trade war, inventory declines have slowed and the rig count has risen once again.

Despite all this bearish news, oil prices jumped on Friday, with WTI breaking above \$62 and Brent nearing \$66.

In the sector, [OMV](#) rose more than 4% after announcing Thursday that it had acquired Shell's upstream assets in New Zealand.

## Iron ore

China's ferrous futures mostly edged up during morning trading on Friday following the release of data by the China Iron & Steel Association (Cisa) showing a rise in crude steel output rates during the last eight days of February, MetalBulletin reported.

**Base metals** prices on the London Metal Exchange were mostly higher during morning trading - with tin being the only metal in negative territory.

**Gold** prices held firm on Friday as tensions between the United Kingdom and Russia and renewed US political concerns.

Meanwhile the US dollar rose as traders, awaiting next week's Federal Reserve meeting, eyed data that showed the number of Americans filing for unemployment benefits fell last week.

## Stock analysis: Wesfarmers

Wesfarmers has announced plans to spin off its Coles supermarket business, as well as its liquor and convenience stores, creating a new, standalone, top-30 company.

The move blindsided the market which had been expecting an announcement on Wesfarmers' struggling UK Bunnings expansion. Wesfarmers said the decision followed a review of its entire portfolio of businesses, which included retailers Bunnings, Officeworks and Kmart, as well as chemical and mining assets.

The review focused on an assessment of the composition of the capital employed within the group and plans to support higher levels of future growth and total shareholder returns. Coles — which was acquired

by Wesfarmers in 2007 for \$22 billion — dominates the WA-based conglomerates' books, accounting for 60% of the group's capital base and a third of divisional earnings.

Wesfarmers managing director Rob Scott said the Group was repositioning its portfolio to target a higher capital weighting towards businesses with strong future earnings growth prospects.

"Wesfarmers acquired Coles as part of Coles Group in 2007 and since then has successfully turned around the business and restored its position as a leading Australian retailer," Mr Scott said.

"We believe Coles has developed strong investment fundamentals and is of a scale where it should be operated and owned separately.

"It is now a mature and cash-generative business, which is expected to have a strong balance sheet and dividend-paying capacity. "Coles will be well positioned to continue to deliver long-term earnings growth, with an earnings profile that is expected to be resilient through economic cycles."

Wesfarmers was yet to put a price on the demerger, but investment bank Credit Suisse recently valued Coles at roughly \$20 billion as a standalone business.

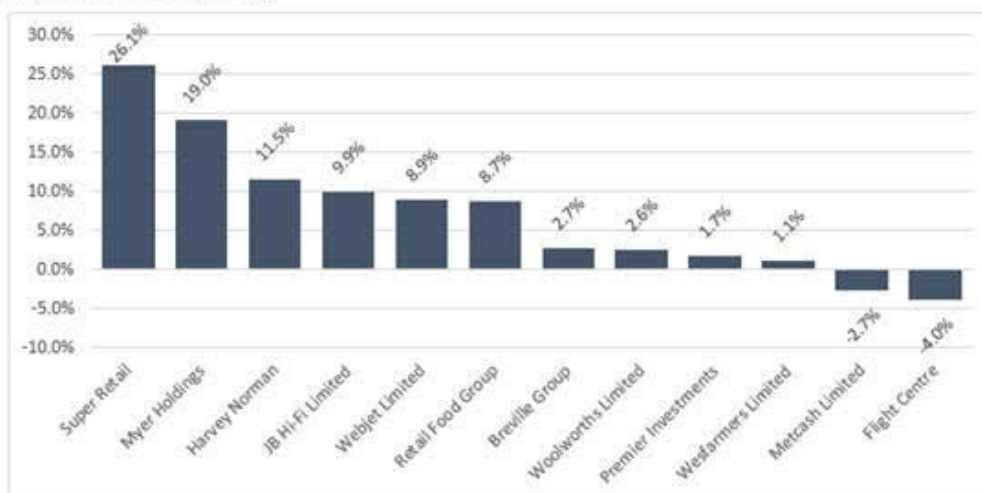
The entrance of budget grocers Aldi and Lidl, plus an increasingly cost-conscious Australian shopper, is likely to see competition intensify in the domestic supermarket/retail sector. It will be interesting to see what new strategies a standalone and presumably re-energised Coles will bring to the table.

Looking at selected stocks in the S&P/ASX 300 consumer space, Super Retail (ASX: SUL) offers the most upside - relative to its IRESS consensus target price and IRESS consensus FY18E dividend yield - with a potential total return of 26%. Flight Centre (ASX: FLT) offers the least upside - relative to its IRESS consensus target price and IRESS consensus FY18E dividend yield - with a potential total return of -4%.






















Forecast total return for selected ASX-listed retail /discretionary consumer stocks

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)
SUL	Super Retail	6.90	8.23	19.3%	0.47	6.8%	26.1%
MYR	Myer Holdings	0.42	0.48	14.3%	0.02	4.8%	19.0%
HVN	Harvey Norman	3.74	3.92	4.8%	0.25	6.7%	11.5%
JBH	JB Hi-Fi Limited	26.11	27.35	4.7%	1.35	5.2%	9.9%
WEB	Webjet Limited	12.38	13.28	7.3%	0.20	1.6%	8.9%
RFG	Retail Food Group	1.03	1.12	8.7%	0.00	0.0%	8.7%
BRG	Breville Group	12.29	12.29	0.0%	0.33	2.7%	2.7%
WOW	Woolworths Limited	26.84	26.62	-0.8%	0.92	3.4%	2.6%
PMV	Premier Investments	15.29	14.97	-2.1%	0.58	3.8%	1.7%
WES	Wesfarmers Limited	43.29	41.61	-3.9%	2.17	5.0%	1.1%
MTS	Metcash Limited	3.00	2.78	-7.3%	0.14	4.7%	-2.7%
FLT	Flight Centre	56.47	52.61	-6.8%	1.62	2.9%	-4.0%

Source: IRESS, compiled by State One Stockbroking





































## Economic Calendar 19/03/2018 – 23/03/2018

Monday March 19 2018		Actual	Previous	Consensus	Forecast	
07:50 AM	JP Balance of Trade FEB		¥943B	¥100B	¥105.6B	
Tuesday March 20 2018		Actual	Previous	Consensus	Forecast	
05:30 PM	GB Inflation Rate YoY FEB		3%	2.8%	2.9%	
06:00 PM	DE ZEW Economic Sentiment Index MAR		17.8	13.0	15.1	
11:00 PM	EA Consumer Confidence Flash MAR		0.1	0.1	0.4	
Wednesday March 21 2018		Actual	Previous	Consensus	Forecast	
05:30 PM	GB Unemployment Rate JAN		4.4%	4.4%	4.4%	
05:30 PM	GB Claimant Count Change FEB		-7.2K	0.7K	5.8K	
10:00 PM	US Existing Home Sales FEB		5.38M	5.4M	5.45M	
	EA ECB Non-Monetary Policy Meeting					
Thursday March 22 2018		Actual	Previous	Consensus	Forecast	
02:00 AM	US Fed Interest Rate Decision		1.5%	1.75%	1.75%	
02:00 AM	US FOMC Economic Projections			+		
02:30 AM	US Fed Press Conference			+		
08:30 AM	AU Unemployment Rate FEB		5.5%	5.5%	5.5%	
08:30 AM	AU Employment Change FEB		16K	20K	15K	
04:30 PM	DE Markit Manufacturing PMI Flash MAR		60.6	59.8	59.7	
05:00 PM	DE Ifo Business Climate MAR		115.4	114.7	114.9	
08:00 PM	GB BoE Interest Rate Decision		0.5%	0.5%	0.5%	
08:00 PM	GB BoE Quantitative Easing		£435B	£435B	£435B	
Friday March 23 2018		Actual	Previous	Consensus	Forecast	
07:30 AM	JP Inflation Rate YoY FEB		1.4%	1.7%	1.4%	
08:30 PM	CA Inflation Rate YoY FEB		1.7%	2.1%	1.7%	
08:30 PM	US Durable Goods Orders MoM FEB		-3.7%	1.6%	1%	
10:00 PM	US New Home Sales FEB		0.593M	0.62M	0.62M	

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

## Economic Calendar 26/03/2018 – 30/03/2018

Monday March 26 2018		Actual	Previous	Consensus	Forecast	
09:00 PM	 RU GDP Growth Rate YoY Q4		1.8%	+		
Tuesday March 27 2018		Actual	Previous	Consensus	Forecast	
05:00 PM	 EA Business Confidence MAR		1.48	+	1.42	
Wednesday March 28 2018		Actual	Previous	Consensus	Forecast	
03:00 PM	 DE GfK Consumer Confidence APR		10.8	+	10.9	
08:30 PM	 US GDP Growth Rate QoQ Final Q4		3.2%	+	2.4%	
Thursday March 29 2018		Actual	Previous	Consensus	Forecast	
03:00 PM	 CH KOF Leading Indicators MAR		108		106.1	106.96 
03:00 PM	 TR GDP Growth Rate YoY Q4		11.1%	+	10.40%	
03:00 PM	 TR GDP Growth Rate QoQ Q4		1.2%	+	0.90%	
03:55 PM	 DE Unemployment Rate MAR		5.4%	5.4%	5.4%	
03:55 PM	 DE Unemployment Change MAR		-22K	-15K	-16.38	
04:30 PM	 GB GDP Growth Rate QoQ Final Q4		0.5%	0.4%	0.4%	
04:30 PM	 GB GDP Growth Rate YoY Final Q4		1.8%	1.4%	1.4%	
08:00 PM	 DE Inflation Rate YoY Prel MAR		1.4%	+	1.4%	
08:30 PM	 US Personal Income MoM FEB		0.4%	0.4%	0.44%	
08:30 PM	 US Personal Spending MoM FEB		0.2%	0.2%	0.2%	
Friday March 30 2018		Actual	Previous	Consensus	Forecast	
07:01 AM	 GB GfK Consumer Confidence MAR		-10	+	-10.05	
07:30 AM	 JP Unemployment Rate FEB		2.4%	2.7%	2.4%	
Saturday March 31 2018		Actual	Previous	Consensus	Forecast	
09:00 AM	 CN NBS Manufacturing PMI MAR		50.3	51.2	50.44	

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



## All Ords Top 10 Week Ending 16 March 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
GXY	Galaxy Resources	17.4	RFG	Retail Food Group	-11.0
SYR	Syrah Resources	17.4	NCM	Newcrest Mining	-8.6
PMV	Premier Investments	11.0	SPK	Spark New Zealand	-6.3
WES	Wesfarmers Limited	7.0	APO	Apn Outdoor Grp	-6.3
SAR	Saracen Mineral	7.0	MTS	Metcash Limited	-5.4
MND	Monadelphous Group	7.0	GMA	Genworth Mortgage	-4.7
PLS	Pilbara Min Ltd	6.9	CTX	Caltex Australia	-4.7
ORE	Orocobre Limited	6.0	PPT	Perpetual Limited	-4.5
SXL	Sthn Cross Media	5.7	TAH	TABCORP Holdings Ltd	-4.2
S32	South32 Limited	5.6	BTT	BT Investment Mngmnt	-3.9

Source: IRESS

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