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Overview

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Global Wrap – 20 May 2018

Key points

1. Telstra plunges
2. Trade talk tension ease
3. *Stock picks: Which oil and gas stocks?*

US

Wall Street slipped on Friday, weighed down by financials and as Google owner Alphabet and Applied Materials led technology stocks lower, Reuters reported. However losses were limited as industrial shares gained on signs of progress in Sino-US trade talks.

The S&P 500 index fell 7.16 points, or 0.3% to 2,712.97. The Dow Jones industrial average gained 1.11 points to 24,715.09. The Nasdaq composite lost 28.13 points, or 0.4%, to 7,354.34.

China denied it had offered a package to slash the US trade deficit by up to \$200 billion, hours after it dropped an anti-dumping probe into US sorghum imports in a conciliatory gesture as top negotiators meet in Washington.

A Chinese foreign ministry spokesman said the consultations were “constructive” as the world’s two biggest economies seek to bridge a divide on trade issues.

Alphabet tumbled 0.8%, weighing the most on the Nasdaq. Google is set to be featured on CBS News’ *60 Minutes* this weekend.

Investors will be watching for implications of that report next week, as well as trade talks progress.

China

China stocks closed higher on Friday amid hopes that Beijing and Washington will reach a deal in the latest round of trade negotiations, Reuters reported.

The blue-chip CSI300 index ended 1% higher at 3,903.06, while the Shanghai Composite Index closed 1.2% higher to 3,193.30 points. For the week, SSEC rose nearly 1%, while CSI300 was up 0.8%.

Japan

With investors taking heart from the yen's weakening against the dollar, stocks gained further ground on the Tokyo Stock Exchange on Friday, The Japan Times reported.

The 225-issue Nikkei average climbed 91.99 points, or 0.40%, to close at 22,930.36, the highest finish since February 2. It advanced 121.14 points on Thursday.

The Topix index of all first-section issues ended up 6.88 points, or 0.38%, at 1,815.25, a closing level unseen since Feb. 5. It rose 8.02 points on Thursday.

On investors' watch list next week will be the Japanese trade balance, to be released on Monday.

Europe

European stocks retreated from an almost-four month high on Friday as uncertainty about Italian politics contributed to a downdraft in a market already jittery over trade tensions between global superpowers China and the US, MarketWatch reported.

The Stoxx Europe 600 index closed 0.3% lower at 394.67, breaking a three-day winning run. [On Thursday](#) the pan-European benchmark ended at its highest level since January 30, buoyed by a rally for oil-related companies.

For the week, the Stoxx 600 scored a 0.6% gain.

Italian politics remained in focus on Friday after the country's two biggest populist parties [agreed on a coalition program](#) that included plans to cut taxes and increase fiscal spending. However there is no direct threat to Italy's membership of the eurozone.

The economic policies of the would-be government sets Italy on a possible collision course with Brussels that could revive memories of the eurozone debt crisis.

London-listed Glencore fell 4.4% after Bloomberg reported that the miner may face a formal bribery investigation over its business conduct in Congo.

In London on Wednesday British CPI will be released, followed by GDP on Friday as well as the OECD's euro zone economic forecast.

Australia

The Australian share market recorded its first-weekly loss in seven weeks as Telstra shares fell to seven-year lows, Fairfax reported.

The S&P/ASX 200 index closed down 28.8 points, or 0.5% for the week, at 6087.4, recording losses in three of the five sessions.

Telstra was the biggest drag on the market this week after the company announced its profit would come in at the lower end of its guidance. This announcement raised doubts that Telstra would be able to fund its dividend at its current price causing shares to fall to a seven-year low on Wednesday. Telstra finished the week down 10.9% at \$2.85.

Treasury Wine Estates also weighed the index this week as reports emerged that its Chinese market was facing a glut. New Chinese custom regulations also concerned investors as shares fell 11.5% to \$16.57.

a2 Milk shares fell this week following a trading update that showed forecast earnings were below investor expectations despite an annual rise in revenue of 63%. Its shares closed the week at \$10.26, down 14.1%. Bellamy's Australia shares followed a2 Milk, shedding 15% to close at \$16.09.

Rare-earth miner Lynas Corp posted big losses this week, falling 15.1% to \$2.31. Prices of rare earth oxides declined last week on poor downstream demand during the low season.

CSL led the market this week after a profit upgrade on Friday. The company said it expected a net profit of \$US1.68 billion (\$2.23 billion) to \$US1.71 billion for the year ending June 30, compared with its earlier forecast of \$US1.55 billion to \$US1.6 billion. Its shares closed the week up 4.1% at \$182.95.

This coming Wednesday investors will be listening to RBA Governor's Philip Lowe's speech for clues on interest rate movement. The Westpac Leading Index will also be released.

Energy sector

The energy sector led the market this week as oil prices continued to rise on sanction concerns. Chief executive officer of French oil explorer Total Patrick Pouyanne said on Thursday that he wouldn't be surprised to see oil prices reach \$US100 a barrel in the coming months.

The S&P/ASX 200 Energy index gained more than 2% this week as Whitehaven Coal led the sector's gains. Whitehaven shares rose after it took full ownership of the Tarrawonga coal mine, after buying out Idemitsu.

The energy sector has gained 14% in the past three months compared with a 2% gain in the S&P/ASX 200 index.

Aluminium

Aluminium shortage concerns appear to have eased as the commodity's price fell 1.4% on Thursday. Orders to withdraw aluminium (cancelled warrants) from the London Metal Exchange warehouses declined by a record 37%. Markets appear to be less worried about supply concerns arising from US sanctions against Russian aluminium giant Rusal.

Rusal is preparing to boost its aluminium exports and that has resulted in the fall in cancelled warrants, which are now at the same levels seen prior to the sanctions being announced. Market analysts are tipping that this will mean prices stay relatively stable at this level.

Gold

The yellow metal moved in a tight \$5 range above yesterday's new 2018 low against a rising US Dollar on Friday, BullionVault reported. Gold held a 2.5% drop for the week at \$1287 per ounce as Asian stockmarkets climbed back to unchanged and European equities held a half-a-per-cent gain.

Stock analysis

The price of crude oil surged past \$80 a barrel on Thursday, hitting a three-and-a-half-year peak. Global benchmark Brent crude rose 1% on the previous day's trading to hit \$80.07, helped along by the news that Total is threatening to pull out of its Iran gas field deal. Another factor fuelling the rally is a fall in US inventories, which have dropped sharply in recent months.

However, the strongest support for the oil price in recent weeks has been US President Donald Trump's decision to withdraw from the Iran nuclear deal. The resumption of sanctions on the Middle Eastern state has raised concerns over supplies, compounded by the collapsing Venezuelan oil market, which could be set for more trouble if the US reacts strongly to this weekend's presidential election in the cash-strapped country.

Could oil go higher? Venezuela's problems are unlikely to be resolved anytime soon and could be exacerbated if Trump aims sanctions at the troubled country following rigged and unfair elections. Additionally, if the US can get China to loosen energy ties with Iran, then regardless of increased US shale production, the price could close in on \$100.

However, on the more pessimistic side of the market, some analysts believe the price has reached a peak at the \$80 mark. "There is now a firmer consensus around the potential impact of lost Venezuelan/Iranian exports, and as such, we see little to drive benchmarks much higher in the immediate term," said Jack Allardyce, oil and gas analyst at Cantor Fitzgerald Europe.

"While global inventories are approaching long-run averages (suggesting that the co-ordinated OPEC/non-OPEC supply cuts have been successful), there is a building concern over demand growth, partially on account of higher prices.

"In short, it feels that fundamentals have found a bit of balance, although firmer indications of the impact of renewed sanctions on Iran may well change the picture."

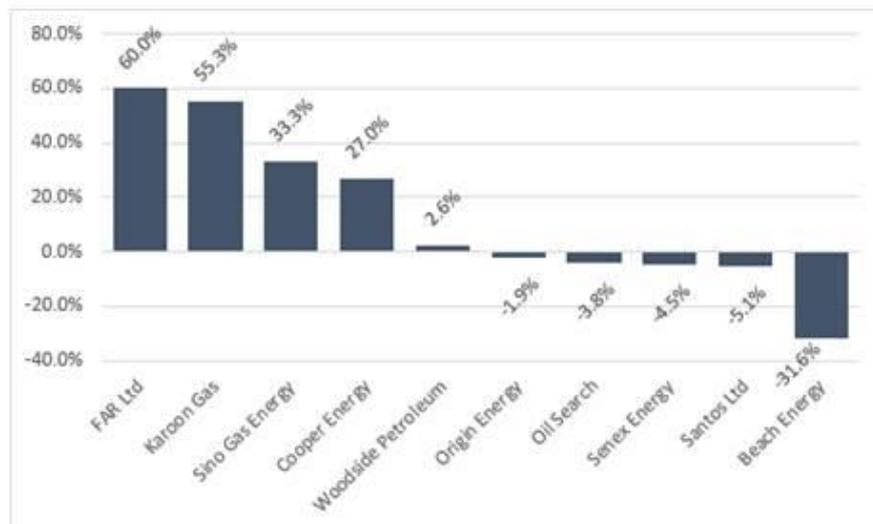
We believe the oil price has further upside. As per the graph below, the oil price – despite recent gains – is still undervalued relative to gold; on a relative basis, we calculate oil has a further US\$5-10/bbl upside.

Small caps appear to offer the most upside. The larger cap "blue-chip" plays such as Woodside, Origin etc appear fully priced. However, we suspect that sell-side analysts have still to revise up their long-term oil price forecasts. This could lead to an upgrade in earnings and target price revisions.



Forecast total return for S&P/ASX 300 Oil & Gas stocks

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)
FAR	FAR Ltd	0.1	0.16	60.0%	0.00	0.0%	60.0%
KAR	Karooon Gas	1.14	1.77	55.3%	0.00	0.0%	55.3%
SHE	Sino Gas Energy	0.21	0.28	33.3%	0.00	0.0%	33.3%
COE	Cooper Energy	0.37	0.47	27.0%	0.00	0.0%	27.0%
WPL	Woodside Petroleum	34.34	33.54	-2.3%	1.69	4.9%	2.6%
ORG	Origin Energy	10.07	9.85	-2.2%	0.03	0.3%	-1.9%
OSH	Oil Search	8.59	8.11	-5.6%	0.15	1.7%	-3.8%
SXY	Senex Energy	0.44	0.42	-4.5%	0.00	0.0%	-4.5%
STO	Santos Ltd	6.23	5.88	-5.6%	0.03	0.5%	-5.1%
BPT	Beach Energy	1.77	1.19	-32.8%	0.02	1.1%	-31.6%



Source: IRESS, compiled by State One Stockbroking

Economic Calendar 21/05/2018 – 25/05/2018

Monday May 21 2018		Actual	Previous	Consensus	Forecast	
07:50 AM	JP Balance of Trade APR		¥797B	¥405.6B	¥330B	
Wednesday May 23 2018		Actual	Previous	Consensus	Forecast	
01:30 PM	FR Unemployment Rate Q1		8.9%	+	9.1%	
03:30 PM	DE Markit Manufacturing PMI Flash MAY		58.1	57.8	57.4	
04:30 PM	GB Inflation Rate YoY APR		2.5%	2.5%	2.6%	
10:00 PM	EA Consumer Confidence Flash MAY		0.4	-0.1	0.1	
10:00 PM	US New Home Sales APR		0.694M	0.679M	0.685M	
Thursday May 24 2018		Actual	Previous	Consensus	Forecast	
02:00 AM	US FOMC Minutes			+		
02:00 PM	DE GfK Consumer Confidence JUN		10.8	10.8	10.7	
10:00 PM	US Existing Home Sales APR		5.6M	5.57M	5.54M	
Friday May 25 2018		Actual	Previous	Consensus	Forecast	
04:00 PM	DE Ifo Business Climate MAY		102.1	101.9	101.9	
04:30 PM	GB GDP Growth Rate QoQ 2nd Est Q1		0.4%	0.1%	0.1%	
04:30 PM	GB GDP Growth Rate YoY 2nd Est Q1		1.4%	1.2%	1.2%	
08:30 PM	US Durable Goods Orders MoM APR		2.6%	-1.4%	-0.7%	

Source: www.tradingeconomics.com

Economic Calendar 28/05/2018 – 1/06/2018

Tuesday May 29 2018			Actual	Previous	Consensus	Forecast	
07:30 AM	JP	Unemployment Rate APR		2.5%	+	2.5%	
Wednesday May 30 2018			Actual	Previous	Consensus	Forecast	
01:00 PM	JP	Consumer Confidence MAY		43.6	+	43.8	
03:55 PM	DE	Unemployment Change MAY		-7K		-13.3K	
03:55 PM	DE	Unemployment Rate MAY		5.3%		5.3%	
05:00 PM	EA	Business Confidence MAY		1.35	+	1.27	
08:00 PM	BR	GDP Growth Rate QoQ Q1		0.1%	+	0.4%	
08:00 PM	BR	GDP Growth Rate YoY Q1		2.1%	+	2.3%	
08:00 PM	DE	Inflation Rate YoY Prel MAY		1.6%	+	1.5%	
08:15 PM	US	ADP Employment Change MAY		204K	+	197K	
08:30 PM	US	GDP Growth Rate QoQ 2nd Est Q1		2.9%	+	2.2%	
10:00 PM	CA	BoC Interest Rate Decision		1.25%	+	1.25%	
Thursday May 31 2018			Actual	Previous	Consensus	Forecast	
07:01 AM	GB	Gfk Consumer Confidence MAY		-9	+	-10	
09:00 AM	CN	NBS Manufacturing PMI MAY		51.4	+	51.4	
05:00 PM	EA	Unemployment Rate APR		8.5%	+	8.5%	
08:00 PM	IN	GDP Growth Rate YoY Q1		7.2%	+	7%	
08:30 PM	CA	GDP Growth Rate QoQ Q1		0.4%	+	0.2%	
08:30 PM	CA	GDP Growth Rate Annualized Q1		1.7%	+	1.4%	
08:30 PM	US	Personal Income MoM APR		0.3%	+	0.3%	
08:30 PM	US	Personal Spending MoM APR		0.4%	+	0.3%	
Friday June 01 2018			Actual	Previous	Consensus	Forecast	
09:45 AM	CN	Caixin Manufacturing PMI MAY		51.1	+	51	
08:30 PM	US	Non Farm Payrolls MAY		164K	+	185K	
08:30 PM	US	Unemployment Rate MAY		3.9%	+	3.9%	
10:00 PM	US	ISM Manufacturing PMI MAY		57.3	+	58.3	

Source: www.tradingeconomics.com

All Ords Top 10 Week Ending 18 May 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
WHC	Whitehaven Coal	11.3	LYC	Lynas Corporation	-15.1
ECX	Eclixp Group Ltd	10.5	BAL	Bellamy'S Australia	-15.0
ORE	Orocobre Limited	9.8	A2M	The A2 Milk Company	-14.1
SFR	Sandfire Resources	7.6	AHG	Automotive Holdings.	-12.1
JBH	JB Hi-Fi Limited	6.6	VOC	Vocus Group Ltd	-11.6
AHY	Asaleo Care Limited	6.3	TWE	Treasury Wine Estate	-11.5
SUL	Super Ret Rep Ltd	5.9	TLS	Telstra Corporation.	-10.9
SYR	Syrah Resources	5.3	SKI	Spark Infrastructure	-7.3
CGF	Challenger Limited	5.2	RSG	Resolute Mining	-7.2
HVN	Harvey Norman	5.2	EVN	Evolution Mining Ltd	-7.2

Source: IRESS

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