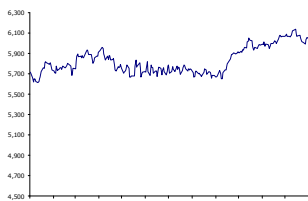


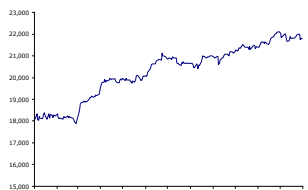
# STATE ONE SPINNAKER

**27 January 2018**  
**Issue 398**

## 12 month XJO chart



## 12 month Dow Jones chart



### State One Research Products

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**Overview**

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## Global Wrap – 27 January 2018

World Markets	27/01/2018	20/01/2018	Wkly Chg	Mthly Chg	Yearly Chg
ASX 200	6050	6006	0.7%	-0.3%	6.7%
Dow Jones	21798	21988	-0.9%	-1.0%	18.0%
Nasdaq	5284	5284	0.0%	-0.2%	21.9%
S&P 500	2873	2810	2.2%	5.9%	25.1%
FTSE 100	7666	7731	-0.8%	-0.1%	7.0%
DAX30	13340	13434	-0.7%	2.8%	15.5%
Shanghai Composite	3558	3501	1.6%	5.1%	12.6%
Nikkei 225	23632	23816	-0.8%	0.5%	21.8%
Hang Seng	33154	32255	2.8%	8.5%	41.8%
<b>Currency</b>					
AUD/USD	0.8110	0.8016	1.2%	1.4%	7.4%
<b>Commodities</b>					
Oil (\$/bbl)	66.2	63.5	4.3%	7.0%	23.3%
Gas (\$/gal)	3.2	2.9	8.0%	5.4%	1.9%
Iron Ore (\$/t)	0.0	53.9	-100.0%	-100.0%	-100.0%
Copper (\$/t)	7064	7079	-0.2%	-0.7%	19.9%
Lead (\$/t)	2604	2608	-0.2%	0.9%	9.0%
Zinc (\$/t)	3428	3463	-1.0%	2.3%	21.8%
Aluminium (\$/t)	2238	2256	-0.8%	-0.1%	21.8%
Nickel (\$/t)	13750	12595	9.2%	10.3%	43.8%
Tin (\$/t)	22005	20685	6.4%	9.8%	9.0%
Gold (\$/oz)	1357	1331	2.0%	3.2%	14.0%
Silver (\$/oz)	17.4	17.0	2.4%	1.6%	3.9%
Platinum (\$/oz)	1018	1017	0.2%	5.9%	3.9%
Wheat (\$/t)	442.250	422.500	4.7%	1.5%	3.6%

Source: Iress

## Global Wrap

### Key points

1. Commodity prices boost Aussie miners
2. More record highs in US, China
3. Earnings reports buoy euro stocks
4. Electric vehicles fuel nickel surge
5. Stock picks: REITs in focus

## US

US equity benchmarks finished in record territory again on Friday, MarketWatch reported. This marked a fourth straight weekly advance even as a reading of fourth-quarter gross domestic product came in slightly softer than expected. However it was viewed as healthy enough not to derail the perception that the economy is on firm footing.

The US dollar pared some of its early losses, but remained in negative territory against its peers, after Treasury Secretary Steven Mnuchin said on Friday that a strong buck was in the best interest of the US. The comments were an apparent backflip on what he had said on Wednesday when he suggested there were benefits to the US in a weaker dollar.

Also on Friday President Donald Trump, in his keynote speech at World Economic Forum in Davos, Switzerland, highlighted the strength of the domestic economy and offered a less protectionist stance on international trade. Trump reiterated that a strong USD was in his country's interest.

The US GDP reading was 2.6% in the final three months of 2017, but declining inventories and a wider trade deficit kept the world's biggest economy from hitting the forecast 3% mark for the third quarter in a row for the first time in 13 years.

Still, the reading was viewed as sufficiently solid to maintain the bullish run for US equities, amid better-than-expected corporate results and expectations for a pro-business legislative regime under Trump.

A weaker dollar, which has been around three-year lows despite coming off its lowest levels, also has been a catalyst for gains in shares of multinational companies because it can boost sales and revenues from buyers using other currencies.

Next week the Personal Consumption Expenditures Price Index will be released on Monday. Investors will also be watching Trump's State of the Union speech on Wednesday.

## **China**

Hong Kong stocks pushed further into record territory on Friday, notching up a seventh straight week of gains. The benchmark Hang Seng index closed above 33,000 at the midday lunchbreak for the first time as banks posted strong gains and internet giant Tencent Holdings set a new high. It closed the day just shy of the psychologically important 33,000-point level, The South China Morning Post said.

Earlier on Friday, the People's Bank of China raised the yuan's mid-point rate against the US dollar to 6.3436, the highest level in more than two years and a sixth straight day of strengthening. Banks were the main driver of Hong Kong shares, after Morgan Stanley raised its price targets for the sector on the back of improved asset quality and higher net interest margins, thanks to China's progress in financial deleveraging.

Official non-manufacturing Purchasing Manager Index (PMI) data will be released next Wednesday, followed by the independent Caixin manufacturing PMI on Friday.

## **Japan**

Stocks lost further ground on the Tokyo Stock Exchange on Friday, weighed down by selling on concerns over the yen's continued firmness against the dollar, The Japan Times said.

The Tokyo market had got off to a firmer start, helped by the yen's easing compared with Thursday, traced to US President Donald Trump's comment that he wants the dollar to be strong, and by an overnight rise in US equities, brokers said.

But stocks, particularly large-cap issues, met with a wave of selling later after the yen strengthened again in Tokyo trading, brokers said.

Behind the selling was a sense of caution among investors that the US government, in reality, may be hoping for a weaker dollar, a senior analyst in Tokyo said, citing US Treasury Secretary Steven Mnuchin's applauding a weaker USD during a talk at the World Economic Forum in Davos, Switzerland Wednesday.

Brokers suspect these remarks, albeit later clarified by Mnuchin and contradicted by Trump, signaled hidden intentions in Washington.

Among the market movers, Mitsubishi Motors was met with selling after informing the transport ministry on Thursday that it will recall some 170,000 units of five vehicle models.

Electronics maker Fujitsu General tumbled 10.28% after revising down its earnings forecast for fiscal 2017, which ends in March.

By contrast, Rakuten attracted purchases after the cybermall operator announced Friday that it has formed a strategic partnership with Walmart.

Internet Initiative Japan was buoyant a day after the mobile virtual network operator announced that it has set up a new company to offer payment services using virtual currencies.

Fujitsu, the parent company of Fujitsu General, was upbeat on a media report on Friday that it will sell its mobile phone business to an investment fund.

Next week Overall Household Spending and Retail Trade figures will be released on Monday and Industrial Production data will be flashed on Tuesday, the same day as a Bank of Japan Statement of Opinions. Consumer confidence and construction data will be released on Wednesday.

## **Europe**

European stocks closed higher on the last trading day of the week, as investors digested new earnings reports, CNBC reported.

The pan-European STOXX 600 closed provisionally almost half a percent higher on Friday, with almost all sectors moving into the black. European bourses were higher, with France's CAC 40 outperforming fellow indexes. It was up 0.88% on the back of strong earnings.

In a sign of a strengthening economy, luxury brand LVMH rose almost 4.9% after reporting that revenue had increased by 13%, compared with the previous year. The group added that it was "cautiously confident" for 2018, despite uncertainties surrounding geopolitics and fluctuations in the currency market. Other French luxury makers rose near the top of the STOXX 600 movers on the back of LVMH's results, with Christian Dior up more than 4% and Kering up more than 2%.

On the data front, UK gross domestic product (GDP) data showed that the British economy had accelerated during the last three months of 2017, rising 0.5% according to data by the Office of National Statistics. The data beat analysts' forecasts, with a Reuters poll of economists expecting quarterly growth to remain at 0.4%.

Next week eurozone GDP will be flashed on Monday and CPI will be flashed on Wednesday. Official and Markit PPI figures will be released on Thursday and Friday respectively.

## **Australia**

Australian shares weakened on Thursday before the long weekend, while the Australian dollar briefly vaulted back over US81¢, Fairfax Media reported.

The Australian dollar briefly jumped over US81¢ in the session to trade at its highest level since May 2015 before falling back to US80.93¢.

Currency strategists attributed the Australian dollar's strength to a sharp drop in the US dollar after US Treasury Secretary Steven Mnuchin endorsed the USD's decline on Wednesday as a benefit to the American economy and US Commerce Secretary Wilbur Ross said the US would fight harder to protect its exporters.

On Friday, however, at the World Economic Forum in Davos, Switzerland President Donald Trump told CNBC that the dollar would strengthen over time under his leadership and that recent remarks made by Treasury Secretary Steven Mnuchin about the greenback had been misinterpreted.

Commodity price gains provided a tailwind for the Australian mining sector on Thursday, with BHP up 0.6% at \$30.85, Rio Tinto trading up 0.8% at \$78.81 and Fortescue Metals up 1.6% at \$5.10.

Gold was a notable advancer and gold miners strengthening in Australian trading included Newcrest Mining, up 2.2% at \$23.36, and Evolution Mining, up 3.7% at \$2.80.

Banks pulled back after two days of gains, with NAB ending the day down 0.6% at \$29.06, ANZ lower by 0.5% at \$28.65 and Westpac down 0.3% at \$30.93.

Industrials, which are often seen as bond proxies, had a weaker session, with Transurban falling 1.1% to \$12.06 and Sydney Airport losing 1.1% to \$6.95.

BlueScope Steel traded down 2.1% to \$14.79 in the session and AGL shares lost 1.6% to end the day at \$23.47.

Nickel miner Western Areas climbed on Thursday, with the firm's shares rising as much as 6.6% to \$3.40 and hitting their highest level since January 16 before closing up 4.7% at \$3.34.

The gains for the firm followed a two-and-half-year high for the nickel price on Wednesday amid expectations that increased demand in batteries used to power electric vehicles will boost the stainless steel ingredient.

Western Areas reported December quarter production numbers on Wednesday which showed the company achieved record quarterly throughput of 161,218 tonnes of ore.

Next week Housing Industry Association (HIA) new homes sales figures will be released on Monday and the NAB business confidence reading will be out on Tuesday. The CPI will be closely watched on Wednesday followed by PPI on Friday.

## **Commodities**

### *Oil*

The recent oil price rally gained yet more momentum this week on the news that Russia and OPEC planned to extend their co-operation indefinitely and on reports that inventories had continued to drain, oilprice.com reported.

Oil prices were further buoyed this week on the back of a weakening dollar.

In other news related to oil – and minerals needed for electric vehicles - the world's first fully electric container barges will start operating in the ports of Antwerp, Amsterdam and Rotterdam in the northern summer, according to The Guardian. The vessels could eliminate the need for an estimated 23,000 trucks, most of which run on diesel.

### *Iron ore*

Benchmark Northern China import prices for 62% Fe ore was pegged at \$74.60 a tonne on Friday, down from a 2018 peak just shy of \$80 a tonne reached two weeks ago.

Also on Friday, Anglo American received long-awaited environmental permits that pave the way for the world's number four diversified miner to expand its Minas-Rio iron ore mine in the Brazilian state of Minas Gerais.

The century-old company has long said the third phase is critical for Minas Rio to reach its nameplate capacity of 26.5 million tonnes of iron ore a year.

### *Base metals*

This past week there was considerable volatility and at times price divergence within the base metals camp, mining.com reported. Tin prices reached multi-month highs, nickel prices set multi-year highs, zinc and lead extended highs, while aluminium prices consolidated in high ground and copper prices were volatile as prices were knocked lower by large stock increases into LME-registered warehouses. They managed to rebound despite the increases.

### *Gold*

Gold rose on Friday, climbing back towards the previous day's 17-month peak as a report of slower than expected US growth pushed the USD lower, a couple of days after the greenback was hammered by Mnuchin backing a weaker currency.

Dollar weakness makes assets priced in the US units less expensive for holders of other currencies.

## Stock picks

Real Estate Investment Trusts (REITs) are investment vehicles that have a portfolio of real estate. REITs, like stocks, raise money through an initial public offering with funds subsequently allocated to buy, develop and manage real estate.

REITs generate money through income from renting and selling assets. The money earned is paid to its unitholders (similar to shareholders of stocks) through quarterly distributions.

REITs typically pay out a significant portion of their income to unitholders and must have the majority of total assets in real estate to be considered and listed as a REIT.

## Key advantages as compared to stocks

### 1. Predictable cash flow and dividends

Because REITs are required to give out most of their income as dividends, investors should be fairly certain that they would consistently get dividends as long as the REIT continues to be profitable. REITs also tend to sign long-term leases with their tenants. Because of this, investors are able to predict the long-term revenue of a REIT accurately.

### 2. REIT prices are less volatile

The beta of REITs, a measure of volatility, and consequently risk, has been historically much lower than stocks at most times. This is because of the predictable nature of REITs' cash flows and business.

### 3. There are many types of REITs to choose from

There are different REITs to choose from that can be further divided into different categories i.e., industrial, commercial, residential, agricultural, and geographic location.

## Key disadvantages as compared to stocks

### 1. Highly leveraged

REITs are usually highly leveraged investment vehicles. This works as a double-edged sword. Leveraging allows REITs to purchase more assets than they have in unitholders' equity. At the same time, leverage poses additional risks as REITs may face difficulty paying off its debt in difficult times. As such, investors need to find REIT investments that have lower leverage to survive through any exigencies.

### 2. Unable to reinvest and grow

The fact that REITs are required to pay out a significant portion of their income to unitholders works as a double-edged sword, too. Although unit holders can sleep easy knowing they can earn consistent dividends, REITs are not able to reinvest in their portfolio, hence can remain stagnant for many years. The two ways to grow are through issuing new units that will dilute current unitholders' equity or by increasing its borrowings from banks.

























































### 3. Concentration risk

Naturally REITs, because of their focus on properties, will be affected when the property market faces a downturn.

***The top-15 largest REITs (by M'Cap) on the S&P/ASX 300 Index look attractive, offering a simple average total return of ~9% (3.5% capital upside, 5.5% dividend yield). Stockland (ASX: SGP), Lendlease (ASX: LLC), and Mirvac (ASX:MGR) offer the biggest upside, with potential total returns of 18%, 16%, and 15% respectively.***





















*Note: Total returns are based on IRESS consensus target prices and IRESS FY18E dividends*

**Economic Calendar 29/01/2018 – 2/02/2018**

Monday January 29 2018			Actual	Previous	Consensus	Forecast	
09:30 PM		US Personal Income MoM DEC		0.3%	0.3%	0.3%	
09:30 PM		US Personal Spending MoM DEC		0.6%	0.4%	0.4%	
Tuesday January 30 2018			Actual	Previous	Consensus	Forecast	
07:30 AM		JP Unemployment Rate DEC		2.7%	2.7%	2.7%	
08:30 AM		AU NAB Business Confidence DEC		6	12	8	
02:30 PM		FR GDP Growth Rate QoQ 1st Est Q4		0.6%	0.6%	0.5%	
04:00 PM		ES GDP Growth Rate QoQ Flash Q4		0.8%	0.7%	0.7%	
04:00 PM		ES GDP Growth Rate YoY Flash Q4		3.1%	3.1%	2.9%	
04:00 PM		CH KOF Leading Indicators JAN		111.3	111.2	111.5	
06:00 PM		EA Business Confidence JAN		1.66	1.70	1.69	
06:00 PM		EA GDP Growth Rate QoQ Flash Q4		0.6%	0.6%	0.6%	
06:00 PM		EA GDP Growth Rate YoY Flash Q4		2.6%	2.6%	2.8%	
09:00 PM		DE Inflation Rate YoY Prel JAN		1.7%	1.7%	1.8%	
10:00 PM		MX GDP Growth Rate QoQ Prel Q4		-0.3%		0.20%	
Wednesday January 31 2018			Actual	Previous	Consensus	Forecast	
08:01 AM		GB Gfk Consumer Confidence JAN		-13	-13	-12	
09:00 AM		CN NBS Manufacturing PMI JAN		51.6	51.5	51.6	
01:00 PM		JP Consumer Confidence JAN		44.7		44.8	
04:00 PM		IN Fiscal Year GDP Growth 2016-17		7.1%		7.1%	
04:55 PM		DE Unemployment Rate JAN		5.5%	5.5%	5.5%	
04:55 PM		DE Unemployment Change JAN		-29K	-20K	-14.8K	
06:00 PM		EA Unemployment Rate DEC		8.7%	8.7%	8.7%	
09:15 PM		US ADP Employment Change JAN		250K	180K	190K	
Thursday February 01 2018			Actual	Previous	Consensus	Forecast	
03:00 AM		US Fed Interest Rate Decision		1.5%	1.5%	1.5%	
09:45 AM		CN Caixin Manufacturing PMI JAN		51.5	51.3	51.2	
02:45 PM		CH Consumer Confidence Q1		-2		1	
11:00 PM		US ISM Manufacturing PMI JAN		59.7	58.9	59.10	
Friday February 02 2018			Actual	Previous	Consensus	Forecast	
09:00 PM		RU GDP Growth Rate YoY Prel Q4		1.8%		1.1%	
09:30 PM		US Unemployment Rate JAN		4.1%	4.1%	4.1%	
09:30 PM		US Non Farm Payrolls JAN		148K	180K	195K	

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

**Economic Calendar 5/02/2018 – 9/02/2018**

Monday February 05 2018			Actual	Previous	Consensus	Forecast	
12:00 PM	ID	Full Year GDP Growth 2017		5.02%	5.1%	5.1%	
12:00 PM	ID	GDP Growth Rate YoY Q4		5.06%		5.15%	
11:00 PM	US	ISM Non-Manufacturing PMI JAN		55.9		56.38	
Tuesday February 06 2018			Actual	Previous	Consensus	Forecast	
08:30 AM	AU	Balance of Trade DEC		A\$-0.628B		A\$ -0.49B	
11:30 AM	AU	RBA Interest Rate Decision		1.50%			
09:30 PM	CA	Balance of Trade DEC		C\$-2.54B		C\$ -2.4B	
09:30 PM	US	Balance of Trade DEC		\$-50.5B		\$ -49.6B	
11:00 PM	CA	Ivey PMI s.a JAN		60.4		59.22	
Wednesday February 07 2018			Actual	Previous	Consensus	Forecast	
05:00 PM	IN	RBI Interest Rate Decision		6%		6%	
	EA	ECB Non-Monetary Policy Meeting					
Thursday February 08 2018			Actual	Previous	Consensus	Forecast	
11:00 AM	CN	Balance of Trade JAN		\$54.69B		449.62	
11:00 AM	CN	Exports YoY JAN		10.9%			
11:00 AM	CN	Imports YoY JAN		4.5%			
03:00 PM	DE	Balance of Trade DEC		€23.7B		€ 21.8B	
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 February 09 2018			Actual	Previous	Consensus	Forecast	
09:30 AM	CN	Inflation Rate YoY JAN		1.8%		1.90%	
05:30 PM	GB	Balance of Trade DEC		£-2.804B		£ -2.5B	
09:30 PM	CA	Unemployment Rate JAN		5.7%		5.7%	
09:30 PM	CA	Employment Change JAN		78.6K		44.8K	

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

## All Ords Top 10 Week Ending 26 January 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
RMD	ResMed Inc.	11.2	MYX	Mayne Pharma Ltd	-12.1
WTC	Wisetech Global Ltd	9.9	FXJ	Fairfax Media Ltd	-6.3
TWE	Treasury Wine Estate	9.0	IVC	InvoCare Limited	-6.2
WHC	Whitehaven Coal	8.8	API	Australian Pharm.	-5.6
NAN	Nanosonics Limited	8.6	BSL	BlueScope Steel Ltd	-5.3
NEC	Nine Entertainment	7.9	DHG	Domain Holdings Aus	-5.1
IGO	Independence Group	7.3	SYR	Syrah Resources	-5.1
ALU	Altium Limited	6.4	IFN	Infigen Energy	-4.4
WSA	Western Areas Ltd	6.4	HT1	Ht&E Limited	-4.0
ORE	Orocobre Limited	6.3	PGH	Pact Group Hldgs Ltd	-3.8

Source: IRESS

## S & P Indices Week Ending 26 January 2018

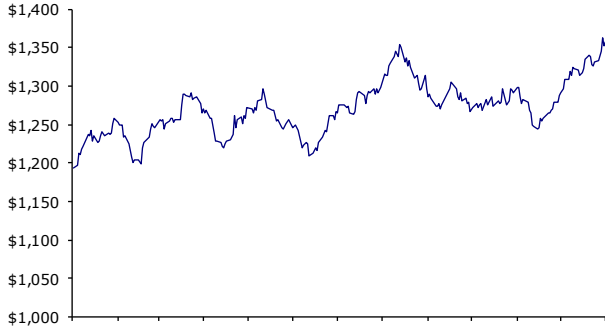
S&P Indices	27/01/2018	20/01/2018	Wkly Chg	Mthly Chg	Yearly Chg
S&P 200 Energy	11009	10733	2.6%	-0.1%	18.9%
S&P 200 Materials	11796	11696	0.9%	0.1%	12.4%
S&P 200 Industrials	5805	5728	1.4%	-1.2%	15.9%
S&P 200 Consumer Disc.	2340	2324	0.7%	0.0%	12.8%
S&P 200 Consumer Staples	10244	10101	1.4%	0.4%	16.3%
S&P 200 Healthcare	25122	24571	2.2%	3.5%	19.9%
S&P 200 Financials	6477	6478	0.0%	-0.4%	0.6%
S&P 200 Info Technology	1033	1001	3.2%	2.3%	26.0%
S&P 200 Telecommunicatic	1282	1286	-0.3%	-2.7%	-27.9%
S&P 200 Utilities	7863	7897	-0.4%	-4.6%	-0.6%
S&P 200 Property Trusts	1359	1358	0.1%	-3.3%	2.6%
S&P 200 Financials ex PT	7224	7225	0.0%	-0.4%	0.6%

Source: IRESS

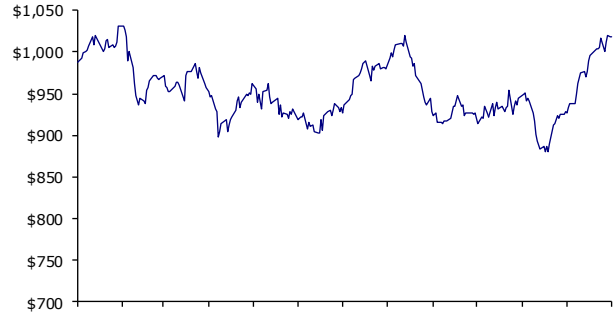


### 1 Year Commodity Price Charts

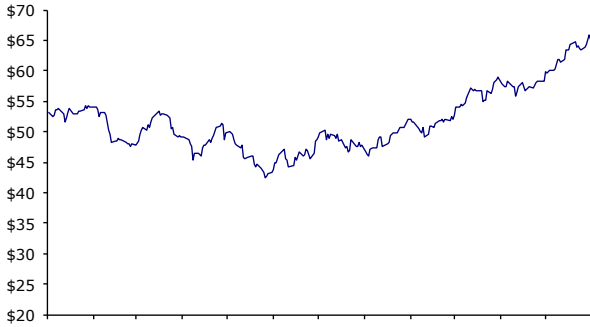
**1 Year Gold**



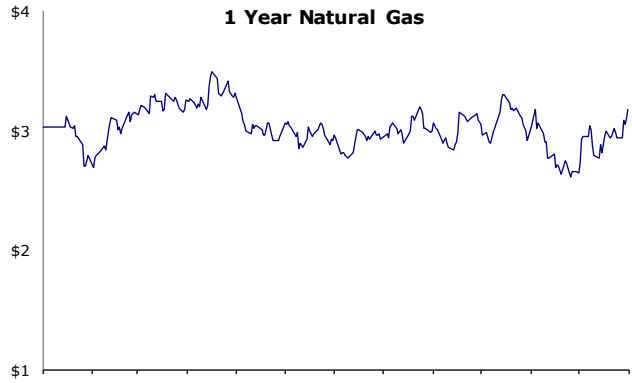
**1 Year Platinum**



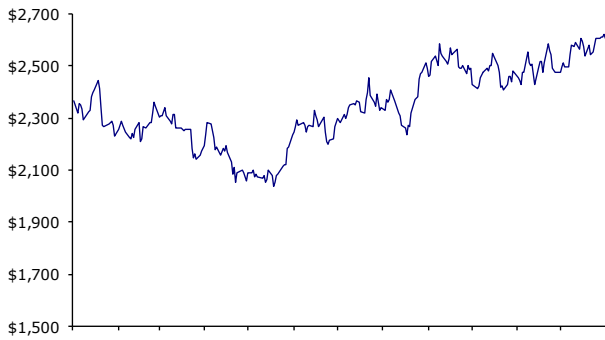
**1 Year Oil**



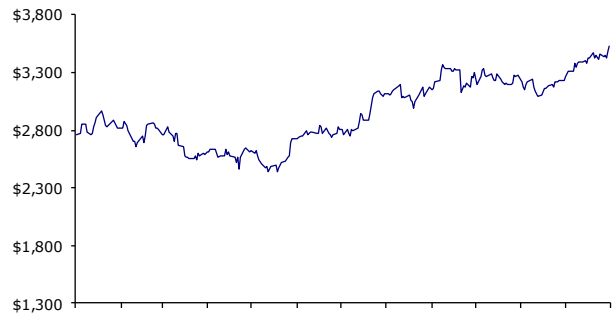
**1 Year Natural Gas**



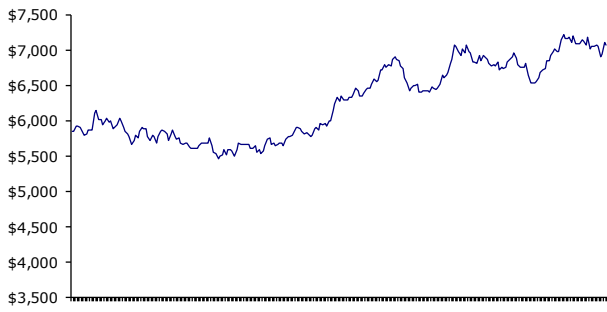
**1 Year Lead**



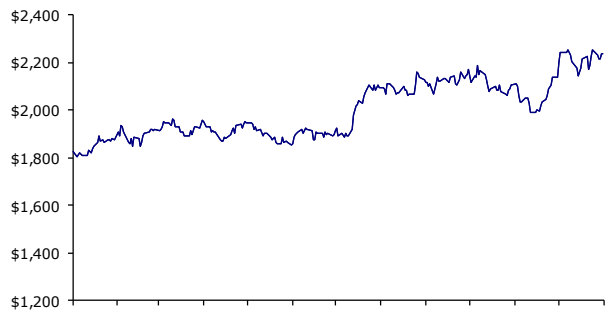
**1 Year Zinc**



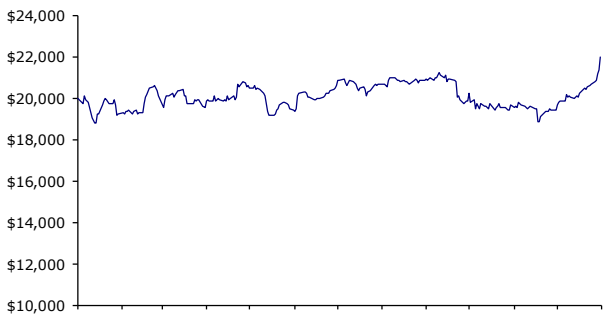
**1 Year Copper**



**1 Year Aluminium**

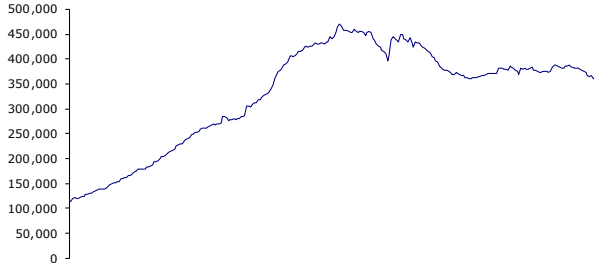


**1 Year Tin**

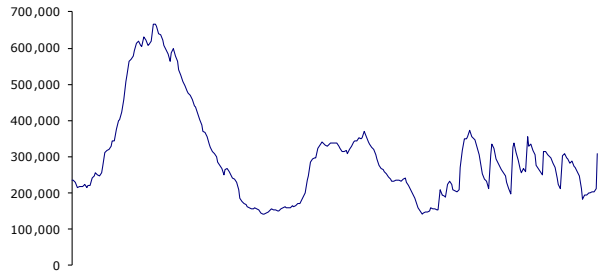


**5 Year Metals Stockpiles**

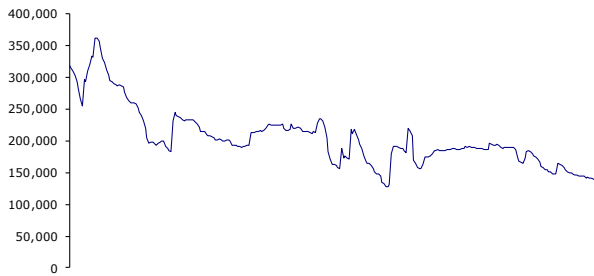
**Nickel LME Stockpiles - 5 Year**



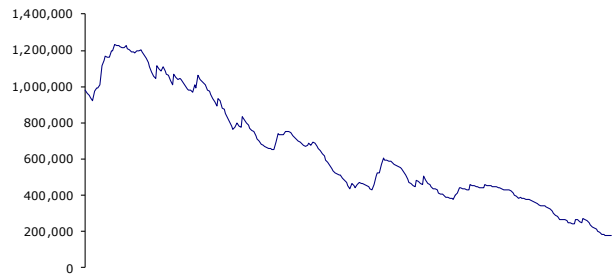
**Copper LME Stockpiles - 5 Year**



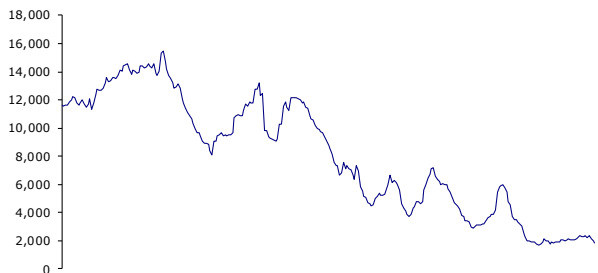
**Lead LME Stockpiles - 5 Year**



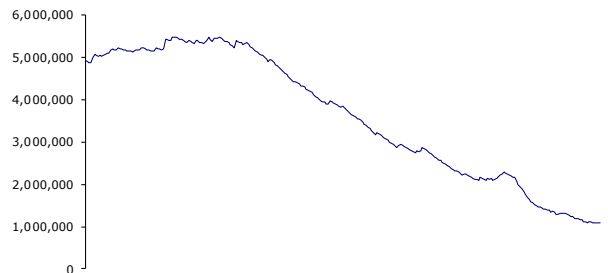
**Zinc LME Stockpiles - 5 Year**



**Tin LME Stockpiles - 5 Year**



**Aluminium LME Stockpiles - 5 Year**



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