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Overview

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Global Wrap – 27 May 2018

Key points

1. Oil plunge, geopolitical tensions weigh on equities
2. Wesfarmers offloads UK loss-maker
3. *Stock analysis: Finance sector Royal Commission fall-out*

US

The S&P 500 index and the Dow Jones Industrial Average dipped on Friday as a steep drop in oil prices weighed on energy stocks, with losses limited by gains in chipmakers and healthcare shares, Reuters reported.

US crude declined more than 3.5% to \$68.24 per barrel after Saudi Arabia and Russia said they were ready to ease supply curbs that have pushed prices to their highest since 2014.

The S&P energy index slid almost 3% on track for its biggest one-day percentage decline since February 8.

Shares of Exxon and Chevron both fell more than 2.5%, while service firms Schlumberger, Halliburton were down 3.6% and 5.9% respectively.

The markets this week have been hit by trade tensions with China, President Donald Trump's threat of imposing tariffs on imported cars and uncertainty over a US-North Korea summit.

Trump said on Friday the summit with North Korean leader Kim Jong Un could still take place on June 12 as originally planned. On Thursday he called off a historic summit with North Korean leader Kim Jong Un scheduled for next month, citing Pyongyang's 'open hostility', and warned the US military was ready in the event of any reckless acts by North Korea.

Adding to investor worries about a trade war, the Trump administration has launched a national security investigation into car and truck imports that could lead to new US tariffs similar to those imposed on imported steel and aluminium in March.

US Commerce Secretary Wilbur Ross will visit China early next month for another round of talks amid ongoing trade frictions between the world's two largest economies.

Trading volumes were thin ahead of the long weekend, with markets shut on Monday for the Memorial Day holiday on Monday before four days of big data releases.

On Tuesday a key US Consumer Confidence Index will be out, followed by GDP and the Advance Goods Trade Balance on Wednesday.

The 'core' PCE price index - personal consumption expenditures excluding food and energy prices - will be released on Thursday before key manufacturing and employment data on 'Jobs Friday'.

China

China's major stock indexes fell on Friday to post their worst week in more than one month. Sentiment soured after Trump called off the planned June meeting with North Korean leader Kim Jong Un, Reuters said.

The blue-chip CSI300 index fell 0.3% to 3,816.50 points, while the Shanghai Composite Index ended down 0.4% at 3,141.30 points.

For the week, SSEC slid 1.6%, while CSI300 declined 2.2%, posting their worst weekly drops since late April.

Most sectors lost ground on Friday, but consumer and healthcare firms gained, as investors sought shelter in the two defensive sectors.

This coming week official Purchasing Managers Index figures will be released on Wednesday, then the independent Caixin PMI data on Friday.

Japan

Tokyo's share market finished session mixed on Friday as bargain hunting helped to mitigate early losses triggered after Washington cancelled the planned summit with North Korea, the Business Standard reported.

The benchmark [Nikkei](#) 225 index inched up 0.06% or 13.78 points to close at 22,450.79, while the broader [Topix](#) index slipped 0.22% or 3.95 points to 1,771.70.

Meanwhile the ongoing geopolitical and emerging market uncertainties are helping to push the Japanese yen higher against the US dollar.

Japan is favoured as a safe haven currency because of the country's robust current account surplus and net foreign asset positions.

Aside from geopolitical events, Japanese investors will be watching the jobless rate release on Monday, then retail trade figures on Tuesday.

Industrial production data will be out on Wednesday.

Europe

European stocks closed slightly higher on Friday amid continued uncertainty surrounding Italy's government-in-waiting. Traders also continued to monitor US-North Korea relations, CNBC reported. The pan-European Stoxx 600 closed up 0.14%, with most major bourses negative and sectors mixed. Bank stocks were among the worst performers, down 0.76%, after European finance ministers struck a deal for risk reduction in the continental banking system.

Italy's designated Prime Minister Giuseppe Conte, whose credentials have been hit with scrutiny, met with Bank of Italy Governor Ignazio Visco on Friday. Italian short-dated bond yields soared as uncertainty over the country's incoming anti-establishment government continued.

Apart from political plays in Italy and US-North Korean relations, investors next week will be monitoring the OECD's euro zone economic forecasts, French GDP, as well as German employment and CPI on Wednesday. Euro zone CPI will be released on Thursday.

Australia

The S&P/ASX 200 index fell 4.3 points, or 0.1%, on Friday to 6032.8, down 54.6 points, or 0.9%, for the week, Fairfax reported.

The market recorded most of its losses on Tuesday when the index fell 42 points as Telstra shares hit a seven-year low, following on from its big loss the week before. The telco was able to regain some of its losses later in the week as it finished up 0.7% at \$2.87.

BHP Billiton led the market losses this week, closing at \$33.07, down 3%. Its shares had been modestly lower through the week as iron ore prices fell before a slump in oil prices on Friday pushed the stock down further. Woodside Petroleum also posted a big loss on Friday as it closed the week down 4.2% at \$32.86.

The four major banks weighed the market down this week as the Hayne royal commission resumed on Monday. Westpac fell 1.9% to \$28.29, NAB was down 1.9% at \$26.89, Commonwealth Bank shed 0.9% to \$69.87 and ANZ fell 1.1% to \$27.87.

On Friday it was announced that Wesfarmers will sell its struggling Homebase and Bunnings hardware businesses in the UK and take a loss of up to \$406 million on the deal.

The buyer is a private equity company called Hilco Capital. It will pay a nominal amount for the business. Wesfarmers says it will book a loss of between \$353 million and \$406 million in the deal. [Wesfarmers paid around \\$700 million for the chain just over two years ago](#) but [wrote down the value of the UK investment in February by \\$1.3 billion](#).

Crucially, the deal will allow Wesfarmers to stop investing fresh capital in the business, and will have it hand around \$2 billion of lease obligations to Hilco.

And in a sweetener for Wesfarmers shareholders, the company secured a deal where it will be entitled to 20% of any proceeds when Hilco comes to sell the business down the track.

Aristocrat Leisure surged on Thursday and Friday after it released its half-year results. The company reported a 220% increase in its digital revenues, helping the company's shares climbed 10.3% for the week to \$31.32.

Blackmores also posted big gains, its shares rising 9.2% to \$137 this week with most of the gains occurring on Friday. CEO Richard Henfrey's on-market share purchases may have given investors confidence the business is doing well following declines earlier in the year.

This coming week is a slow one for Aussie data releases, the main one being building approval figures on Wednesday, as investors will be focusing on events affecting commodities prices and the financial sector (see below).

Commodities

Oil prices plunged in early trading on Friday on news that OPEC and its partners, including Russia, are considering a loosening of their production limits (more below). Both WTI and Brent fell by more than 3% Friday morning.

Iron ore: Chinese steel futures rose on Friday, with concerns over demand easing amid declining steel inventories in the world's top producer of the material.

Stockpiles of rebar construction steel at traders had this week fallen 410,000 tonnes to 5.66 million tonnes by Friday, a level last seen in early February, data from Mysteel consultancy showed.

Gold held above \$1300 per ounce in London trade Friday, erasing half of last week's 2% drop amid fresh uncertainty over the US and North Korea talks, tensions between Turkey and the US, plus growing doubts over the debt stability of Italy, the Eurozone's third largest economy.

Meanwhile the market-leading GLD Gold Trust SPDR ETF spiked nearly 1% on Thursday in its best one-day gain since the beginning of April.

Stock analysis

The findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry over the past few weeks has had a marked negative impact on the financial index. The index has fallen over 3% since early May, in stark contrast to the positive momentum seen in the broader equity market over this period.

However, at this juncture, we believe that investors – particularly those looking for dividends – are now starting to look at the sector with renewed interest.

Our selected portfolio of larger cap financial plays offer a (simple) average total return of 15% composed of 9% capital upside and 6% yield. On a risk/return basis we would prefer National Australia Bank (ASX:NAB), Westpac (ASX:WBC), and Bank of Queensland (ASX:BOQ) over QBE Insurance (ASX:QBE) and AMP Limited (ASX:AMP). See table and chart below.

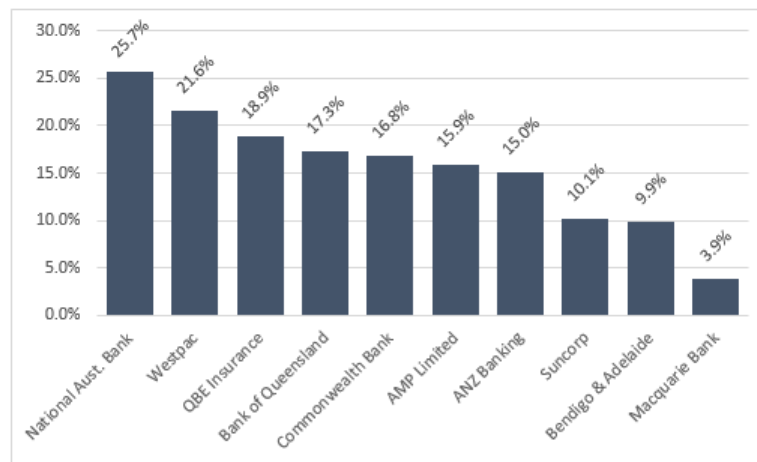


Forecast total return for major ASX-listed financial stocks















































Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY18E Dividend (A\$)	FY18E DY (%)	Total Return (%)	Franking (%)
NAB	National Aust. Bank	26.76	31.67	18.3%	1.98	7.4%	25.7%	100%
WBC	Westpac	28.36	32.59	14.9%	1.89	6.7%	21.6%	100%
QBE	QBE Insurance	9.77	11.16	14.2%	0.46	4.7%	18.9%	30%
BOQ	Bank of Queensland	10.25	11.24	9.7%	0.78	7.6%	17.3%	100%
CBA	Commonwealth Bank	70.04	77.51	10.7%	4.30	6.1%	16.8%	100%
AMP	AMP Limited	3.91	4.25	8.7%	0.28	7.2%	15.9%	90%
ANZ	ANZ Banking	27.87	30.46	9.3%	1.60	5.7%	15.0%	100%
SUN	Suncorp	13.5	14.15	4.8%	0.72	5.3%	10.1%	100%
BEN	Bendigo & Adelaide	10.8	11.17	3.4%	0.70	6.5%	9.9%	100%
MQG	Macquarie Bank	116.42	115.4	-0.9%	5.56	4.8%	3.9%	45%

Source: IRESS, compiled by State One Stockbroking

Note: Share price and Target prices as at 25 May 2018



















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%	2.5%	
Wednesday May 30 2018			Actual	Previous	Consensus	Forecast	
01:00 PM	 JP	Consumer Confidence MAY		43.6	44.5	43.4	
03:55 PM	 DE	Unemployment Change MAY		-7K	-10K	-13.3K	
03:55 PM	 DE	Unemployment Rate MAY		5.3%	5.3%	5.3%	
05:00 PM	 EA	Business Confidence MAY		1.35	1.3	1.27	
08:00 PM	 BR	GDP Growth Rate QoQ Q1		0.1%	0.4%	0.4%	
08:00 PM	 BR	GDP Growth Rate YoY Q1		2.1%	1.3%	1.7%	
08:00 PM	 DE	Inflation Rate YoY Prel MAY		1.6%	2%	1.8%	
08:15 PM	 US	ADP Employment Change MAY		204K	187K	187K	
08:30 PM	 US	GDP Growth Rate QoQ 2nd Est Q1		2.9%	2.3%	2.3%	
10:00 PM	 CA	BoC Interest Rate Decision		1.25%	1.25%	1.25%	
Thursday May 31 2018			Actual	Previous	Consensus	Forecast	
07:01 AM	 GB	Gfk Consumer Confidence MAY		-9	-8	-10	
09:00 AM	 CN	NBS Manufacturing PMI MAY		51.4	51.3	51.4	
05:00 PM	 EA	Unemployment Rate APR		8.5%	8.4%	8.5%	
08:00 PM	 IN	GDP Growth Rate YoY Q1		7.2%	7.3%	7.3%	
08:30 PM	 CA	GDP Growth Rate QoQ Q1		0.4%	+	0.3%	
08:30 PM	 CA	GDP Growth Rate Annualized Q1		1.7%	1.8%	1.8%	
08:30 PM	 US	Personal Income MoM APR		0.3%	0.3%	0.3%	
08:30 PM	 US	Personal Spending MoM APR		0.4%	0.3%	0.3%	
Friday June 01 2018			Actual	Previous	Consensus	Forecast	
09:45 AM	 CN	Caixin Manufacturing PMI MAY		51.1	51	51	
08:30 PM	 US	Non Farm Payrolls MAY		164K	185K	185K	
08:30 PM	 US	Unemployment Rate MAY		3.9%	3.9%	3.9%	
10:00 PM	 US	ISM Manufacturing PMI MAY		57.3	58	58.3	

Source: www.tradingeconomics.com

Economic Calendar 4/06/2018 – 8/06/2018

Tuesday June 05 2018			Actual	Previous	Consensus	Forecast	
12:30 PM	AU	RBA Interest Rate Decision		1.5%	+	1.5%	—
10:00 PM	US	ISM Non-Manufacturing PMI MAY		56.8	+	58	
Wednesday June 06 2018			Actual	Previous	Consensus	Forecast	
09:30 AM	AU	GDP Growth Rate QoQ Q1		0.4%	+	0.6%	
09:30 AM	AU	GDP Growth Rate YoY Q1		2.4%	+	2.5%	
05:00 PM	IN	RBI Interest Rate Decision		6%	+	6%	—
08:30 PM	CA	Balance of Trade APR		C\$-4.14B	+	C\$ -2.1B	
08:30 PM	US	Balance of Trade APR		\$-49B	+	\$ -50B	
10:00 PM	CA	Ivey PMI s.a MAY		71.5	+	59.90	
Thursday June 07 2018			Actual	Previous	Consensus	Forecast	
09:30 AM	AU	Balance of Trade APR		A\$1.53B	+		
05:00 PM	EA	GDP Growth Rate QoQ 3rd Est Q1		0.7%	0.4%	0.4%	
05:00 PM	EA	GDP Growth Rate YoY 3rd Est Q1		2.8%	2.5%	2.5%	
Friday June 08 2018			Actual	Previous	Consensus	Forecast	
11:00 AM	CN	Balance of Trade MAY		\$28.78B	+	\$31B	
11:00 AM	CN	Exports YoY MAY		12.9%	+		
11:00 AM	CN	Imports YoY MAY		21.5%	+		
02:00 PM	DE	Balance of Trade APR		€25.2B	+	€18.7B	
08:30 PM	CA	Employment Change MAY		-1.1K	+	-6K	
08:30 PM	CA	Unemployment Rate MAY		5.8%	+	5.9%	
Saturday June 09 2018			Actual	Previous	Consensus	Forecast	
09:30 AM	CN	Inflation Rate YoY MAY		1.8%	+	1.9%	

Source: www.tradingeconomics.com

All Ords Top 10 Week Ending 25 May 2018

10 Best Performing Stocks Weekly (%)			10 Worst Performing Stocks Weekly (%)		
ALL	Aristocrat Leisure	10.3	RFG	Retail Food Group	-10.2
BKL	Blackmores Limited	9.2	TNE	Technology One	-10.2
MTS	Metcash Limited	7.3	ASL	Ausdrill Limited	-9.7
NAN	Nanosonics Limited	6.9	MND	Monadelphous Group	-8.6
DMP	Domino Pizza Enterpr	6.6	GXY	Galaxy Resources	-8.3
ABP	Abacus Property Grp.	5.2	MIN	Mineral Resources.	-8.0
VCX	Vicinity Centres	5.1	PLS	Pilbara Min Ltd	-7.5
EVN	Evolution Mining Ltd	4.8	SGM	Sims Metal Mgmt Ltd	-7.2
GPT	GPT Group	4.8	QBE	QBE Insurance Group	-6.7
MGR	Mirvac Group	4.5	FMG	Fortescue Metals Grp	-6.6

Source: IRESS

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