



RESEARCH UPDATE

Market Watch - February 2019

International and domestic markets both rallied in January, recovering some of the losses from the sell-off at the end of 2018. The US S&P 500 Index rallied 7.87% to close at 2,704 points, and the Nasdaq increased 9.74% to close at 7,281 points. The UK's FTSE100, Japanese Nikkei 225 and China's Shanghai Composite rose 3.58%, 3.79%, and 3.64% respectively. The S&P/ASX 200 Index (ASX 200) increased 4.26% to close at 5,886 points.

Materials rallied 7.03%, driven by Fortescue Metals Group, which increased 34.84% after a positive trading update which showed the discount for its lower quality iron ore had narrowed.

The Real Estate Sector rose 6.17%, with GPT Group increasing 8.61% after announcing the sale of their 50% ownership in MLC Centre in Sydney's CBD. The company stated the proceeds would be reinvested in new office developments in Paramatta and Melbourne Central.

Financials was the worst performing sector, declining 0.24% driven by AMP Limited which fell 7.76% after a downgraded to profit guidance and a cut to the final dividend from 14.5 cents per share in the prior corresponding period to 4.0 cents per share.

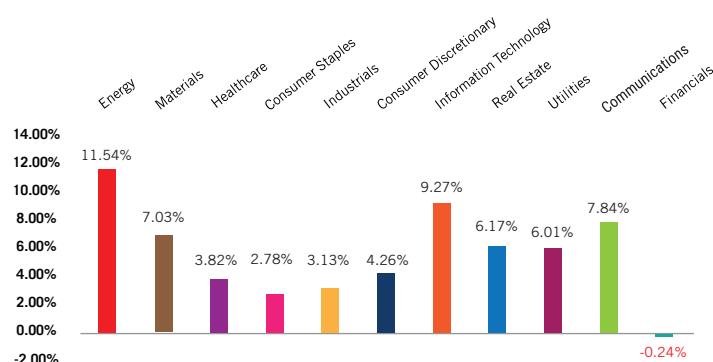
Sector Performance

The Energy Sector was the best performer, rallying 11.54% driven by the oil price which increased 18%, the largest increase for the month of January on record. The increase was primarily a result of a drop in U.S. fuel stockpiles and new sanctions placed on Venezuela.

The Information Technology sector rose 9.27%, driven by Afterpay Touch Group, which rallied 28.31% despite allegations they and other debt collectors have misused electoral roll data to identify individual consumers.

The Communications sector increased 7.84%, driven by Telstra Corporation (Telstra) and TPG Telecom (TPG), which finished the month up 9.12% and 8.54% respectively. Telstra announced they would release 5G handsets to the market in June and the infrastructure division would increase spending on subsea cables to improve connectivity between Asia and the United States. TPG announced it would cease constructing their own mobile network after the Federal Government's ban on Chinese company Huawei Technologies made it uneconomic. The announcement increases the likelihood of the TPG and Vodafone Hutchison Australian merger proceeding, which is currently being considered by the Australian Competition and Consumer Commission.

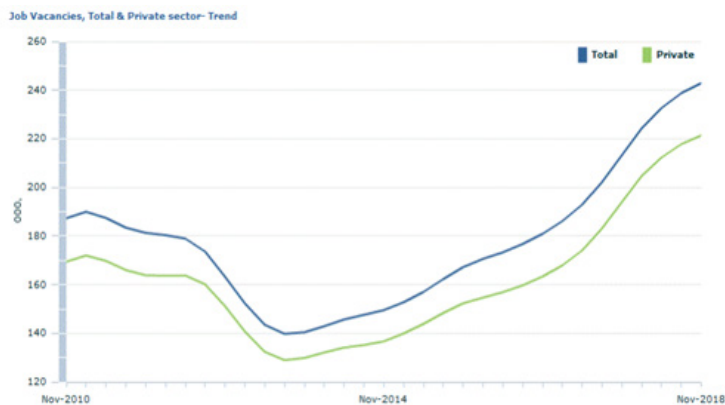
Graph 1: S&P/ASX 200 Sector Performance



Data Source: Bell Potter, 1 February 2019.

Highlights

Australia: The Australian Bureau of Statistics (ABS) released data showing job vacancies in the combined private and public sector have increased by 13.9% on the prior corresponding quarter. As a result, the unemployment rate should continue to improve.



Source: Australian Bureau of Statistics, Job Vacancies Australia, November 2018.

CommSec released a report showing new car sales have fallen to the lowest point since 2014. December new vehicles sales were 87,528 and for the twelve-month period were 1,153,111, a decline of 15% and 3% respectively on the previous corresponding periods. The tightening of credit conditions and the negative 'wealth effect' caused by declining house prices were cited as the primary causes. New vehicle sales are often used as a barometer for consumer and business confidence in the economy.



French waste management company, Suez, has won a contract to build a waste-to-energy plant in Western Australia, which will generate power whilst also assisting Australia in addressing carbon emission and excessive landfill issues. The proposed plant will convert 300,000 tonnes of commercial and industrial waste into 29 megawatts (MW) of electrical power, which is enough to power 40,000 homes. The project is estimated to cost \$400-\$450 million and follows a similar project that was funded by the Australian Renewable Energy Agency in October 2018, which is expected to cost \$668 million and will convert 400,000 tonnes of waste per year into 36MW of electricity.

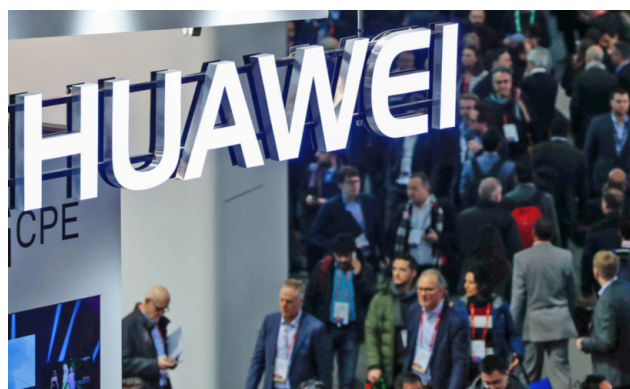
Wine Australia reported the value of wine exported from Australia reached \$2.82 billion, an increase of 10% on the previous year. The United Kingdom remains the largest recipient, which was likely boosted by Australian winemakers stockpiling supplies in warehouses over concerns around Britain's exit from the European Union. Preliminary negotiations on a free trade agreement between Britain and Australia has commenced.

Coles supermarkets and Uber Eats have formed a joint partnership to deliver ready-to-eat and ready-to-heat meals, as part of a pilot program in the Sydney suburb of Pagewood. The service will be similar to existing providers HelloFresh and Marley Spoon, showing the internet and the mobile economy is continuing to disrupt the traditional hospitality and retail industries.

US: US President Donald Trump has entered into an agreement with the Democrats to end a four-week partial government shutdown over a dispute about funding a wall between Mexico and the US. The shutdown was the longest in history and affected 800,000 federal workers with repercussions likely to have been felt throughout the economy.

Fiat Chrysler will pay US\$800 million to settle lawsuits related to diesel-powered cars that were rigged to pass emission tests. The fine follows similar charges that were filed against Volkswagen AG in January 2017.

The U.S. government has filed criminal charges against Chinese technology company, Huawei Technologies Co, and their Chief Financial Officer, Meng Wanzhou, for intellectual property theft primarily related to the theft of a design for a robot from T-Mobile USA Inc. Huawei technology is used in many countries around the world and was recently prohibited from being used in critical infrastructure in Australia, despite it being more cost effective than competitors.



China: China offered to purchase over US\$1 trillion in US exports to balance the trade deficit with the US by 2024, as the US-China trade conflict continues. China's economy has continued to slow as a result of US sanctions, which has led to the Chinese government intervening to stimulate the economy.

US technology company, Microsoft Corporation, had their search engine 'Bing' blocked for two days by the Chinese government's firewall. The firewall was put in place in the mid-1990s to control the internet within China and has also resulted in Alphabet Inc's search engine, Google, being blocked since 2010. Many investors view this as a way for China to stifle competition and support domestic technology companies, which now have operations overseas, such as Tencent Holdings and Alibaba Group.

Global Debt: The Institution of International Finance reported that global debt rose 12% in the September 2018 quarter to \$US244 trillion, more than three times the size of the world's economic output. Most of the increase was attributed to non-financial companies and governments worldwide. New long-term debt issuance by the US Treasury Department is expected to exceed US\$1 trillion for a second straight year.

Technology: Alphabet Inc's (previously Google) artificial intelligence system, DeepMind Lab, is now being used to compete in popular strategy computer program, StarCraft.



The project is expected to assist artificial intelligence to solve complex problems in a more real-world environment where complete information sets are not available. The project follows Google's other artificial intelligence programmes, which defeated the world's best human players at Chess, Atari and Go.

What to watch out for

The British Parliament has voted down the latest Brexit deal, increasing the likelihood that Britain will leave the European Union on 29 March without an agreement. This will likely result in increased social and economic disruption.



The Royal Commission final report into the Financial Services sector was released this week, recommending a number of reforms across the sector. The Australian Securities and Investment Commission (ASIC) has already stated they will release renewed standards on how banks can meet their responsible lending obligations. Any changes will affect how easily retail and business customers can access credit and could have wide-ranging impacts for the economy.

Conclusion

The same issues continue to dominate headlines with little progress made to resolve US-China tensions or the coordination of an orderly exit for Britain from the European Union. Locally, the upcoming Federal Election and individual party policies alongside the release of the Royal Commission's Final report into the Financial Service Sector will be key areas of focus for Australian investors. These issues are well known in financial markets but will contribute to ongoing asset price volatility.

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