

Futures Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
E-mini S&P 500 Futures	2953.5	-2.25	-0.08
E-mini Dow Futures	26751	-12	-0.04
E-mini NASDAQ 100 Futures	7733.75	-11.5	-0.15
SFE 200 Futures	6617	-4	-0.06

Local Market Commentary

It was a record night on Wall Street but Australian shares are set for a dour opening. The materials sector failed to capitalize fully on yesterday's Fed induced bullishness. The responsibility for this laid at the feet of Rio Tinto, after the heavily-weighted mining-giant announced a paring-back of its iron ore output forecasts, owing to "mine operational challenges" being experienced by the company at a key mine in the Pilbara region.

The news sent Rio shares down by over 4 per cent at stages yesterday; and, perhaps ironically, gave a little lift to iron ore prices, which had been showing signs of potential weakness, following the announcement by miner Vale that it would be re-opening one of its largest Brazilian mines. The increasing prospect of looser global monetary conditions, as well the dovish commentary from our own central bank Governor, worked its way into Australian rates markets yesterday. Despite this, the AUD tested life above the 0.6900-handle yesterday, as an even *hastier* fall in US Treasury yields enervated the US Dollar.

World Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
Dow Jones	26753.17	249.17	0.94
S & P 500	2954.18	27.72	0.95
NASDAQ	8051.3404	64.0173	0.8
FTSE 100	7424.44	20.9	0.28
DAX 30	12355.39	46.86	0.38
CAC 40	5535.57	17.12	0.31
Milan MIB30	21361.44	140.06	0.66
Nikkei	21462.86	128.99	0.6
Hang Seng	28550.43	348.29	1.23
Hang Seng China Enterprises	10922.39	157.69	1.46
Straits Times	3314.51	26.34	0.8
Shanghai Composite	2987.1186	69.3157	2.38

Australian Stock Watch

Caltex Australia Limited (CTX): Caltex investors are losing confidence in a forecast revival of fortunes at the fuels supplier after advice that retailing profits will roughly halve this June half year, while the refinery will barely break even. The warning that benchmark net profit would dive as much as 59 per cent in the six months to June sent Caltex's share price into a tailspin, sinking 24 per cent in early trading, the most since June 1988. All parts of the business have been hit, surprising some investors with just how difficult trading has been in the retail division after hopes were fuelled only in April of a recovery. The weakness in refining has been well known, with margins across Asia reaching fiveyear lows early this year, while an unexpected outage at Caltex's Lytton plant near Brisbane also took a toll. *"What caught people offguard was the longevity of the weakness in the retailing business,"* said Jason Teh, a portfolio manager at Vertium Asset Management. *"A downgrade is a downgrade: there's no hiding that."* Profit on a replacement cost basis would drop to \$120 million-\$140 million, down from \$296 million posted in the first half of 2018, Caltex advised on Thursday, citing unaudited figures. That compares with a market consensus of just over \$200 million, according to sources. Caltex is due to report its first-half profit in August, reports AFR.

Commonwealth Bank of Australia (CBA): Another of Commonwealth Bank of Australia's financial advice businesses is officially on the block and being shopped to rivals as part of the bank's simplification program. CBA confirmed to staff late yesterday that it was considering options for CommSec Advisory, which sits within CommSec and provides financial planning and advice to high net worth clients and self-managed super funds, following a report by Street Talk. The unit is understood to include 12 financial advisers and have about \$4 billion to \$4.5 billion in assets under advice. A CBA spokesman confirmed the move yesterday. *"As part of our focus on becoming a simpler, better bank, we are currently reviewing a number of options for CommSec's retail financial advice business, CommSec Advisory, including a possible sale,"* he said in a statement to Street Talk. *"As this process is incomplete, it would be inappropriate for us to comment any further at this time."* Sources said CBA has started a tender process for the business, inviting three of the larger local wealth management firms to pitch for the unit, reports AFR.

Evans Dixon Ltd (ED1): Evans Dixon has sought to reassure investors in its ailing US property fund that New York metropolitan real estate continues to be a *"tremendous store of*



Overseas Markets & Gold Commentary

After the US Fed exited the ring yesterday, some of the world's other heavyweight central-bankers weighed-in on the global race-to-the-bottom for global interest rates. The BOJ met yesterday, and though they kept their policy *entirely untouched*, its Governor Haruhiko Kuroda affirmed his commitment to monetary stimulus if necessary.

RBA Governor Philip Lowe also delivered a speech, in which he was explicit in his belief that lower interest rates were necessary to absorb “spare capacity” in the labour market”. And the Bank of England met last night, left interest rates on hold, but downgraded its forward-outlook, prompting increased bets of a rate-cut from the BOE this year. Risk assets rallied, while sovereign bond yields fell, the USD tumbled, and gold spiked as a result of the dynamic. The S&P500 touched all-time highs, and the ASX200 registered its own 11-year highs, as the prospect of easy-money *the world-over* whet investors risk-appetite – though SPI futures this morning suggesting that enthusiasm will cool on the ASX, with ASX200 looking at a flat open.

Arguably, the greatest beneficiary of this week's concertedly dovish stance from global central bankers has been gold. The price of the yellow-metal hit a 5-and-a-half year high yesterday, as the USD tipped-over, and global interest rates fell. Importantly, too, from a technical basis, the gold price punctured resistance around \$US1360, and came close to hitting the key psychological level of \$US1400.00. It wasn't all smooth sailing it must be said. Nerves were rattled on news that Iran had shot down a US drone over the Straight Hormuz, causing a spike in oil prices on fears of conflict in the region.

wealth”, and vowed to communicate better as it looks to sell houses to repay its debt. The flagship US Masters Residential Property Fund, or URF, announced the results of its strategic review on June 12, and said it would also cut the dividend for unitholders from 5¢ to 1¢. The savings would be used to repay ASX-listed unsecured debt securities, known as URF Notes II, and URF Notes III. At the same time Evans Dixon chief executive Alan Dixon stepped down from his role to help salvage any value in the URF – which is mostly owned by Dixon's retiree clients. The portfolio is valued at more than \$1.4 billion, consisting of 607 freestanding houses and 17 apartment buildings across up-and-coming neighbourhoods in New Jersey and in prime NYC locations. But with plans to repay the \$263 million URF Notes in full, that reduces the portfolio to \$1.14 billion. One analyst estimated that even allowing for a 5 per cent rental yield, the URF will have to sell another \$460 million-odd worth of property just to cover costs, which lowers the actual value of the portfolio to about \$700 million, reports AFR.

Healius Ltd (HLS): Troubled Healius is implementing a hiring freeze over the next six weeks while an external advisory firm combs over the entire healthcare giant's operations, raising concerns over the company's strategy. An email to all staff from chief executive Malcolm Parmenter, obtained by The Australian Financial Review, said the aim was to “*minimise unnecessary duplication and tasks that don't contribute directly to customer service while focus on what we do best*”. Healius has set up a “*Sustainable Improvement Office (SIO)*” with the support of an external firm. It has worked with KPMG in the past, but its current auditor is Ernst & Young. It refused to say which firm was appointed. “*If you are part of the SIO teams, you'll be asked to focus on these projects as a matter of priority in the near-term,*” Dr Parmenter said in the staff email, reports AFR.

Macquarie Group Ltd (MQG): A rush of interest from Asian investors has helped Macquarie group fill the coffers of its latest wholesale European infrastructure fund, which is now armed with a €6 billion (\$9.8 billion) war chest. The capital raising for the Macquarie European Infrastructure Fund 6, €1 billion more than the original target, caps a year in which Macquarie Infrastructure and Real Assets has amassed €13 billion from pension funds, insurers and sovereign wealth funds. The chunk of MEIF6's capital contributed by Asian investors was four times the Asian-sourced proportion of MEIF4. While the bulk of MEIF6's capital was still lobbied in by Europeans, and two-thirds of investors were return clients from previous funds, the Asian investor base has grown much more quickly, reports AFR.

Qantas Airways Limited (QAN): Qantas stands to lose a share of the lucrative business frequent flyer market after the airline jacked up the number of points needed to redeem seats at the pointy end of the plane by up to 15 per cent. “*Qantas is a great airline and partner of ours, but potentially this will make some*



International Economic Data

- **AU RBA Gov Lowe Speech** - Official interest rates are likely to be cut even further, the Reserve Bank of Australia governor has signalled in a speech that also calls on all levels of government to fast-track infrastructure spending and structural reforms to help drive down the jobless rate. Philip Lowe, in an address to the Committee for Economic Development of Australia in Adelaide on Thursday, said despite strong employment growth over recent years there was still *"considerable spare capacity"* across the jobs market. He said there was *"significant"* underemployment and further room for more people to pick up work, which was hampering efforts to get wages growing and inflation to lift. The RBA earlier this month sliced the official cash rate to 1.25 per cent, its lowest level on record, with Dr Lowe saying further cuts were likely, reports The Sydney Morning Herald.
- **US Jobless Claims** - The number of Americans filling for unemployment benefits decreased to 216 thousand in the week ended June 15 2019, from the previous week's unrevised level of 222 thousand and compared with market expectations of 220 thousand, reports TradingEconomics.
- **US Current Account** - The US current account deficit narrowed to USD 130.4 billion or 2.5 percent of the GDP in the first quarter of 2019 from an upwardly revised USD 143.9 billion gap or 2.8 percent of the GDP in the last three months of 2018, above market consensus of USD 125 billion, reports TradingEconomics.
- **US EIA Natural Gas Stocks Change** - Working gas held in storage facilities in the United States increased by 115 billion cubic feet in the week ending June 14 of 2019, reports EIA.

frequent flyers look elsewhere and consider other options," Anna Burgdorf, general manager product and marketing for Travel Associates, told The Australian Financial Review. *"People are incredibly loyal, but when it comes to points, they just want simplicity and easy point redemption, and of course the lowest number of points required possible."* While Qantas' much-anticipated overhaul of its frequent flyer program – one of the most profitable arms of the national carrier, and the largest airline loyalty program in Australia with 12.7 million members – provided wins for those happy to redeem points in economy, would-be business and first class passengers have less to celebrate, reports AFR.

Santos Ltd (STO): The controversial Narrabri coal seam gas project in NSW is on track to be approved before the end of the year in a move gas company Santos says will take the heat off domestic gas prices. State and federal government sources have told The Australian Financial Review that the \$3 billion project, which has been subject to an unofficial state moratorium on coal seam gas for several years, should get the green light by Christmas. The coal seam gas field in NSW's central north is the biggest source of undeveloped gas in south-east Australia, where gas prices have trebled from historical levels, crippling some industrial buyers. An onshore exploration ban in Victoria and development delays in NSW are preventing new fields coming online, prompting five separate ventures to consider LNG import projects, even as indigenous gas that could help bring down electricity prices and spur a local manufacturing industry lies untapped. Santos chief executive Kevin Gallagher said the headwinds facing the Narrabri venture project were *"turning to tailwinds"* as it gained traction among domestic customers and moved through the approvals process, reports AFR.

Wattle Health Australia Ltd (WHA): A combination of negative cash flow and heavy capital spending on production facilities in Victoria have triggered a tumble in the share price of Wattle Health as the broader share market approaches record highs. The infant formula group was a share market darling trading at \$2.70 in February 2018 but has since sunk to about 54¢, with investors increasingly nervous about its ambitious plans, and an organic formula brand, Uganic, central to its aspirations in consumer markets. The arrival to the scene last month of US-based emerging markets fund manager Gramercy is also intriguing. Gramercy signed a \$US75 million (\$109 million) debt facility term sheet to help Wattle fund the acquisition of 75 per cent of the Blend & Pack processing and packaging business in outer Melbourne. Gramercy has a team of 60 people scouring the globe for deals and has been increasing its focus on Latin America from its headquarters in Greenwich, Connecticut. It has a private equity arm and also runs a *"special situations"* fund, as well as

**Commodities (Source: IRESS)**

COMMODITY	CLOSE	+/-	%
Indices	Current	+/-	%
COMEX			
Gold Aug 19	1392.3	43.5	3.23
Silver Jul 19	15.415	0.457	3.06
Copper Jul 19	2.7105	0.03	1.12
NYMEX			
Platinum Jul 19	806.5	0.7	0.09
Palladium Sep 19	1475.4	-17.2	-1.15
LONDON METAL			
Gold (AM Fix)	1342.4	-2.15	-0.16
Gold (PM Fix)	1344.05	2.7	0.2
ENERGY			
Light Crude Jul 19	57.14	3.17	5.87
Brent Crude Oil	64.49	2.25	3.62
CBT			
Wheat Jul 19	533	6.25	1.19
Soybeans Jul 19	940.5	11.75	1.27
Corn Jul 19	460.5	7.25	1.6
OTHER			
Iron Ore (China Port)	115.5	3	2.67
Coal (ICE-GC Newcastle)	70.5	0.82	1.18
LME Indicative			
Copper - Cash	5960.5	63.5	1.08
Copper - 3Mth	5973	69	1.17
Lead - Cash	1902	9.25	0.49
Lead - 3Mth	1903	1	0.05
Zinc - Cash	2569.5	-25	-0.96
Zinc - 3Mth	2461.5	-5	-0.2
Aluminum - Cash	1756.5	-0.75	-0.04
Aluminum 3Mth	1782.5	0	0
Nickel - Cash	12229.75	208.75	1.74
Nickel - 3Mth	12290	170	1.4
Tin - Cash	19220	265	1.4
Tin - 3Mth	19175	255	1.35

AUD exchange Rates (Source: IRESS)

CROSS	CLOSE	+/-	%
AUDUSD	0.6927	0.0043	0.62
AUDJPY	74.594	0.1795	0.24
AUDGBP	0.5458	0.0014	0.26
AUDCAD	0.9119	-0.0023	-0.25
AUDNZD	1.0511	-0.0018	-0.17
AUDHKD	5.4139	0.0277	0.51
AUDSGD	0.9394	0.0011	0.12
AUDMYR	2.8711	-0.0022	-0.08
AUDEUR	0.6124	-0.0007	-0.12

generating returns from distressed debt. The debt facility has a term of four years, with a coupon rate of 9 per cent per annum. Gramercy is also being granted 14.5 million ordinary shares to be held in escrow, reports AFR.

Westpac Banking Corp (WBC): Westpac has made an abrupt aboutface, reinstating a key lending restriction on Thursday night after incurring the prudential regulator's wrath by removing it without approval. Westpac infuriated the prudential regulator after it went rogue and released a handbrake on residential property lending that has been in place across all Australian banks since 2014. A spokesman for the Australian Prudential Regulation Authority said it was surprised a big four bank had lowered the serviceability floor before a consultation process designed to refine the standard had been completed. *"Authorised deposit taking institutions that are not following the current guidance must, through compensating controls, be able to demonstrate to APRA that they are continuing to lend prudently,"* the APRA spokesman said. Although APRA's prudential standards are legally enforceable, the regulator's guidance is not. However, failing to follow guidance can have its own consequences. Financial institutions that have failed to follow prudential guidance have attracted additional scrutiny, intensified supervision and even capital penalties, reports AFR.

Woolworths Group Ltd (WOW): Woolworths has followed up its \$30 million investment in meal kits supplier Marley Spoon by launching a partnership with British-based food tech start-up Spoon Guru. Spoon Guru has developed AI-based technology that helps consumers seek and filter foods and recipes based on their dietary preferences, health objectives, lifestyle choices and religion. After launching an app in 2016 to help shoppers find health and specialty foods, Spoon Guru developed the technology into patented software that is being used by online retailers to enable customers to search for vegan, vegetarian, kosher and gluten, dairy, nut and sugar-free foods, and check nutritional information. Using artificial intelligence, the platform analyses every ingredient and its nutritional value and allocates appropriate dietary tags to each product, enabling large, unstructured data sets to be searched and accurately filtered, reports AFR.



Economic News This Week

- Saturday US Existing Home Sales
- Saturday US Baker Hughes Oil Rig Count

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