

Futures Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
E-mini S&P 500 Futures	3325.75	6	0.18
E-mini Dow Futures	29141	1	0
E-mini NASDAQ 100 Futures	9228.25	32.5	0.35
SFE 200 Futures	7052	22	0.31

Local Market Commentary

Wall Street recovered from early losses overnight after the World Health Organisation (WHO) said it was "a bit too early" to declare China's coronavirus outbreak as a global health emergency. SPI futures point to modest gains for local shares on the open. The ASX200 is set up for a 16-point rally at the open this morning now, according to SPI Futures. The move will reclaim a small fraction of the benchmark index's losses yesterday. The ASX200 dropped over 0.6 per cent, largely due to the concern surrounding coronavirus, along with the release of a much better than expected set of local jobs numbers. The materials and industrials sector led the losses during Thursday's trade, again, as traders pondered the potential impacts on growth from the coronavirus. **Australian jobs beats expectations:** The economy was shown to have added 28,900 jobs last month, and the unemployment rate fell to 5.1 per cent. A slight dampener on the data: these jobs were shown to be entirely part-time jobs, with the economy dropping 300 full time workers last month. Nevertheless, the numbers were treated positively by the market. The A\$ rallied 0.3 per cent popped following the release, as odds of a Feb rate-cut fell.

World Indices (Source: IRESS)

INDEX	CLOSE	+/-	%
Dow Jones	29159.03	-27.24	-0.09
S & P 500	3326.14	4.39	0.13
NASDAQ	9399.3763	15.6083	0.17
FTSE 100	7507.67	-64.25	-0.85
DAX 30	13388.42	-127.33	-0.94
CAC 40	5971.79	-39.19	-0.65
Milan MIB30	23707.05	0.76	0
Nikkei	23795.44	-235.91	-0.98
Hang Seng	27909.12	-431.92	-1.52
Hang Seng China Enterprises	10952.22	-222.48	-1.99
Straits Times	3234.56	-19.37	-0.6
Shanghai Composite	2976.5281	-84.2264	-2.75

Australian Stock Watch

Abacus Property Group (ABP) & National Storage REIT (NSR): National Storage REIT's shares jumped 6.3 per cent yesterday after the country's largest self-storage operator said it had received a non-binding takeover offer from Gaw Capital Partners for the entire company. The 13¢ rise – at one point the shares gained as much as 28¢ – on news of the bid lifted the company's share price to \$2.19, bringing its increase over the past 12 months to 24.8 per cent, ahead of the S&P ASX200's 21.2 per cent. It gave the Andrew Catsoulis-led company, which trades on a price earnings multiple of 10.2, a market capitalisation of \$1.73 billion. Investor Abacus Property Group took a 4.6 per cent stake in the company, reports AFR.

AGL Energy Limited (AGL): Australia's power operator called on NSW suppliers to prepare short-term emergency electricity reserves and for households to cut energy usage amid volatile hot weather conditions and a major outage at one of the state's biggest coal plants. The last-ditch power mechanism — triggered just a few times in the past decade — was called into action because of searing temperatures, the impact of severe NSW bushfires on power transmission and an unscheduled outage at AGL Energy's Bayswater coal plant in the Hunter Valley. Activation of the back-up supplies, known as the Reliability and Emergency Reserve Trader, was started to maintain power system security using power reserves and demand management contracts previously agreed to with the market. The Australian Energy Market Operator issued a forecast "lack of reserve 2" notice for the period from 2.30pm until 6pm as a signal for the market to direct urgent electricity supplies to the grid through either a boost in supplies or large industrial businesses cutting demand, reports The Australian.

Australia and New Zealand Banking Group (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Ltd (NAB) & Westpac Banking Corp (WBC): Another week, another class action against the banks. Actually, another two. CBA and NAB have both been targeted this week, with the launch of proceedings rounding out class actions against Westpac and ANZ started last November. So, CBA is accused of selling customers overpriced life insurance policies via its CommInsure business without searching for the best possible deals available. NAB will be in the dock of public and legal opinion for keeping superannuation members in high-cost and low-performing funds, another failure explored at length. Westpac and ANZ similarly are facing class actions over the selling of junk insurance, a practice dissected bit by painful bit in Hayne's theatre, reports AFR.

Caltex Australia Limited (CTX): Continuing soft conditions for oil refining and a lack of clear rival bidder competition mean Caltex



Overseas Markets & Gold Commentary

Gold prices are higher and poised to close at a two-week high close at midday Thursday. The safe-haven metal got a boost from a sell off in the U.S. stock market that was prompted in part by increases worries about a flu-type virus that is spreading from China. The coronavirus impacting China has now killed at least 17 citizens there as China has locked down the city of 10 million people, Wuhan, reports said. Reports also said another city in China was locked down. At least one case of the virus has been found in the U.S. and one has been reported in Singapore. The U.S. State Department on Thursday advised U.S. citizens to reconsider traveling to the impacted regions of China. Markets are now keeping a closer eye on this matter as it appears to be intensifying.

President Trump's trade threats against the European Union in an interview in Davos on Wednesday are also unsettling European traders. The key European economic event today was the regular monetary policy meeting of the European Central Bank. There was no change in ECB policy, as expected, but ECB statement leaned just a bit easy on monetary policy as it said the ECB's bond-buying program will continue "as long as necessary."

Coronavirus causes volatility in global markets: The biggest issue in the market at present is the outbreak of coronavirus from China. Stock indices across the globe fell yesterday, and growth-sensitive assets fell, as a level of concern manifested in the market, regarding the possible economic consequences of the virus on the Chinese economy. China's CSI300 tumbled 3 per cent yesterday, while European stock indices fell across the board, and commodity prices dropped, with traders flocking to government bonds as risk aversion took hold of the market narrative.

US stocks recover ground of WHO assurances: US stocks managed to retrace early losses, to trade close to flat by the end of Wall Street trade. Having shed as much as -0.6 per cent at the open, the S&P500 reclaimed its losses throughout the session, supported by the World Health Organisation's avoidance of declaring the Coronavirus outbreak an international public health emergency. Tech stocks were once again the outperformers on Wall Street overnight, while the WHO's announcement supported a rebound in transportation stocks.

Australia's suitor Alimentation Couche-Tard might be in no hurry to decide on its next step in the \$8.6 billion takeover. The Canadian convenience retailer is understood to be prepared to take its time to digest the detailed confidential information about Caltex provided to it by top management in two days of briefings in Sydney last week. Couche-Tard's proposed offer of \$34.50 a share for Caltex was rejected as inadequate by the target's board, which still left the door open for its suitor to sweeten its offer. In the meantime, Caltex is fielding approaches from several other parties, including Britain-based EG Group, which last year bought Woolworths' petrol network in Australia for \$1.73 billion. It refused Couche-Tard's request for exclusivity in negotiations on a potential deal, reports AFR.

Cimic Group Ltd (CIM): Cimic Australia's biggest construction company will abandon the Middle East and take a \$1.8 billion write-down after being unable to recover debts owed for projects built during the Dubai property bubble in the early 2000s. The surprise move by the Spanish owned company, which is scrapping its final dividend to pay money that its Middle Eastern joint venture owes to banks, sent its shares plunging to their lowest levels since late 2016 and wiped \$2.2 billion off its market capitalisation. The shares, which were trading at \$45 a year ago, fell 20 per cent, or \$6.95, to close at \$28.03. The enormous write-down weakens Cimic's cash position at a time when it is building many of Australia's biggest infrastructure projects, including Melbourne's \$6.7 billion West Gate Tunnel – which has halted work amid disputes over who should pay for delays because of contaminated soil, reports AFR.

Coles Group Ltd (COL), Metcash Limited (MTS) & Woolworths Group Ltd (WOW): The competition watchdog will investigate allegations major fresh food suppliers planned to withhold supply to German retailer, Kaufland in fear of reprisal from Coles and Woolworths. Suppliers have alleged a formal or informal agreement between leading fresh food companies, including fruit and vegetable suppliers, to withhold supply from Kaufland was one of the factors contributing to its shock decision on Wednesday to withdraw from Australia before opening its first store. Coles, Woolworths and Metcash will be the biggest winners from Kaufland's unexpected exit from Australia, while shoppers are set to lose out as food and grocery prices rise, reports AFR.

Coles Group Ltd (COL): Coles has signed long-term supply agreements with 40 lamb producers in Tasmania and launched grass-fed lamb under the GRAZE brand as part of a strategy to differentiate itself from Woolworths. Charlotte Gilbert, Coles' general manager for meat, said there was a misconception among shoppers that all lamb was solely grass-fed, when in fact most lambs were finished on grain before being processed. "The reason we chose Tasmania is because we have amazing farms down there, great pasture and it's a very pure environment with great access to water and very conducive to great quality lamb production," she said. Coles is increasingly entering into long-term contracts directly with suppliers and primary producers to



International Economic Data

- **AU Consumer Inflation Expectations** - Inflation Expectations in Australia increased to 4.70 percent in January from 4 percent in December of 2019, reports ABS.
- **AU Employment Data** - Australia's seasonally adjusted unemployment rate fell to 5.1 percent in December 2019 from 5.2 percent in the previous month and below market expectations of 5.2 percent. It is the lowest jobless rate since March, as the number of unemployed people fell by 12,900 to 693,100 while employment rose by 28,900 to 12,981,600. Part-time employment increased by 29,200 to 4,146,900 people while full-time employment dropped by 300 to 8,834,700. The participation rate was unchanged at 66.0 percent, reports ABS.
- **US Jobless Claims** - The number of Americans filling for unemployment benefits increased by 6 thousand to 211 thousand in the week ended January 18th from the previous week's revised level of 205 thousand and compared with market expectations of 211 thousand. Continuing jobless claims decreased by 37 thousand to 1731 thousand, reports TradingEconomics.
- **EU Consumer Confidence** - The consumer confidence indicator in the Euro Area stood at -8.1 in January 2020, unchanged from the previous month and below market expectations of -7.8, reports TradingEconomics.
- **US EIA Crude Oil Stocks Change** - Stocks of crude oil in the United States decreased by 0.405 million barrels in the week ended January 17th 2019, following 2.549 million fall in the previous week and against market expectations of a 1.009 million decline, reports TradingEconomics.
- **US EIA Gasoline Stocks Change** - Stocks of gasoline in the United States increased by 1745 thousand barrels in the week ending January 17 of 2020, reports TradingEconomics.
- **US EIA Natural Gas Stocks Change** - Working gas held in storage facilities in the United States decreased by 92 billion cubic feet in the week ending January 17 of 2020, reports TradingEconomics.

Economic News This Week

- Saturday **US Markit Composite PMI**
- Saturday **US Markit Manufacturing PMI**
- Saturday **US Markit Services PMI**
- Saturday **US Baker Hughes Oil Rig Count**
- Saturday **US Markit Services PMI**
- Saturday **US Baker Hughes Oil Rig Count**

ensure supply and differentiate its range from that of rivals, reports AFR.

Crown Resorts Ltd (CWN): The MP whose questions helped trigger the gaming regulator's investigation into Crown Resorts has raised further concerns about how the casino group handled Consolidated Press Holdings' sale of shares to Melco Entertainment. Crown's management of CPH's \$1.67 billion share sale to Melco Entertainment is shaping up as one of the regulator's key areas of investigation, following the inquiry's first hearing on Tuesday. In particular, the Independent Gaming and Liquor Authority (ILGA) will examine whether Crown has breached conditions of its Barangaroo casino licence by failing to report the share sale, which was announced to the stock exchange on May 31 last year, reports AFR. **Downer EdI Limited (DOW):** Downer EDI will further intensify its focus on services and scale back its construction business after the contractor slashed its full-year profits guidance by \$65 million due to cost blowouts on two projects. Its shares tumbled 18 per cent to \$7.17 after it said its upgrade of the APA Group's Orbost gas plant in Victoria and its construction of a processing plant for OZ Minerals' Carrapateena copper gold mine project in South Australia in a joint venture with Ausenco would cost more than expected. *"The costs incurred during December and January materially exceeded the company's estimates and, in addition, a detailed review of customer claims and variations has reduced revenue recognised to date,"* Downer chief executive Grant Fenn said on Thursday. It is understood Downer miscalculated how much work would be involved in completing the projects, pushing up labour costs as the contracts were close to being completed. The pre-tax cost to complete the problem projects has soared by \$43 million, Downer said. Downer has had high rates of cash conversion over the past five years compared with its peers, with 89 per cent of its 2018-19 earnings before interest, taxation, depreciation and amortisation (EBITDA) transferred into cash, giving it annual operating cash flow of \$630 million. But the company said it now expects cash conversion of just 40-50 per cent of EBITDA, reports AFR.

Emeco Holdings Limited (EHL): Mining services provider Emeco could be back in the mix for Downer Mining, as negotiations for the business intensify. Competing for the division is Perenti Global and private equity firm Apollo and, while Emeco was believed to be in the mix earlier on and then out of the contest, it may once again be hanging around the hoop. Expectations are mounting that a sale of the business could be announced around February 12, when the company delivers its half-year results. This is if a demerger is not instead put forward as an option because the prices put forward by suitors falls below expectations. An initial public offering is thought to be off the agenda. The negotiations come as Downer on Thursday announced a profit downgrade due to underperforming projects in the engineering, construction and maintenance space, but despite this, the understanding is that the mining arm will still deliver a strong result, reports The Australian.

**Commodities (Source: IRESS)**

COMMODITY	CLOSE	+/-	%
COMEX			
Gold Apr 20	1567.8	4.9	0.31
Silver Mar 20	17.8	-0.028	-0.16
Copper Mar 20	2.7365	-0.0285	-1.03
NYMEX			
Platinum Apr 20	1008.6	-12.7	-1.24
Palladium Mar 20	2362.5	26.9	1.15
LONDON METAL			
Gold (AM Fix)	1558.1	1.85	0.12
Gold (PM Fix)	1556.9	5.6	0.36
ENERGY			
Light Crude Mar 20	55.57	-1.17	-2.06
Brent Crude Oil	61.98	-0.72	-1.15
CBT			
Wheat Dec 19	579.75	2	0.35
Soybeans Nov 19	909	-4.75	-0.52
Corn Dec 19	393.75	5	1.29
OTHER			
Iron Ore (China Port)	96.5	0	0
Coal (ICE-GC Newcastle)	68.67	0.3	0.44
LME Indicative			
Copper - Cash	5956	-117.75	-1.94
Copper - 3Mth	6022	-81.5	-1.34
Lead - Cash	1972	-18.75	-0.94
Lead - 3Mth	1966.5	-24.5	-1.23
Zinc - Cash	2356.5	-52	-2.16
Zinc - 3Mth	2351.5	-48	-2
Aluminum - Cash	1783.5	-13.75	-0.77
Aluminum 3Mth	1792	-19	-1.05
Nickel - Cash	13274.5	-285	-2.1
Nickel - 3Mth	13375	-280	-2.05
Tin - Cash	16983	-387	-2.23
Tin - 3Mth	17030	-395	-2.27

AUD exchange Rates (Source: IRESS)

CROSS	CLOSE	+/-	%
AUDUSD	0.687	0.0025	0.37
AUDJPY	75.2735	0.093	0.12
AUDGBP	0.5232	0.0023	0.44
AUDCAD	0.9043	0.0053	0.59
AUDNZD	1.0417	0.0038	0.37
AUDHKD	5.3393	0.0212	0.4
AUDSGD	0.927	0.0039	0.42
AUDMYR	2.7949	0.0122	0.44
AUDEUR	0.6194	0.0025	0.4

Fortescue Metals Group Limited (FMG): Australian miners and Treasury boffins could be enjoying strong iron ore prices for longer than expected, amid growing signals Brazilian miner Vale has made a weak start to the year. Vale is typically the world's biggest iron ore producer, but in the week ending January 19 the company is understood to have shipped less iron ore than the world's fourth-biggest exporter, Fortescue Metals Group. Statistics published by the Brazilian Ministry of Economy also suggest Vale has made a slower start to the year than in 2019, with average daily shipping rates down by about 25 per cent. The ministry was quoted by Bloomberg assaying 15.5million tonnes of iron ore left the South American nation's shores in the first 19 days of January; down from 33.1 million tonnes in the full month of January 2019, reports AFR.

Galaxy Resources Limited (GXY): Lithium producer Galaxy Resources has revealed a summer shutdown of its Mt Cattlin mine, as a market rout continues to shrink Australia's new crop of lithium producers. Galaxy warned in October that production at Mt Cattlin would be scaled back by about 40 per cent, but the company said yesterday that mining had ceased at the Western Australian asset in mid-December. The company said it would resume blasting, crushing and processing at the mine in February, while mining was not expected to resume until March. The timelines suggest production of saleable product at Mt Cattlin has ceased for approximately two months, and it comes after exports of lithium rich spodumene concentrate slumped by 26 per cent in 2019. The Mt Cattlin outage adds to the list of idled or largely idled lithium mines in Western Australia: Mineral Resources has shuttered its Wodgina mine, while mining has virtually ceased at Pilbara Minerals' Pilgangoora operation, with customers being supplied with stockpiled ore. The operator of the Bald Hills mine, Alita Resources, went into receivership in late 2019, reports AFR.

Lendlease Group (LLC): Lendlease's investment arm will recoup as much as \$850 million from the sale of one of its largest shopping centre assets as it takes a step closer – following the major divestment of its stake in Adelaide's biggest mall – to satisfying as much as \$2 billion in redemption requests from its unlisted fund as some investors weigh up their exposure to the retail sector. The Lendlease-managed Australian Prime Property Fund (APPF) Retail appointed agents this week to sell its 50 per cent stake of Brisbane's Westfield Carindale, which the fund co-owns with the Scentre Group-managed Carindale Property Trust. APPF Retail's stake in the \$1.7 billion Carindale centre is one of the biggest assets in the 10-property fund. Also, in the portfolio are stakes in Lakeside Joondalup, one of the biggest malls in Western Australia, Sunshine Plaza in Maroochydore on the Sunshine Coast, and Macarthur Square in Western Sydney, reports AFR.

Macquarie Group Ltd (MQG): Macquarie Group will square up against scores of former private client advisers in court in coming months, as the financial services giant's former payment structures face intense scrutiny. Two groups of advisers will next appear in court on March 31, led by former Macquarie employees



John Wardman and Michael Briody, respectively. Those cases will be heard concurrently, while a further two court actions are separately listed for hearings in April. The matters are coming to a head this year after about seven separate court actions by former advisers were initiated against Macquarie over the past four years. The cases relate to alleged breaches by Macquarie of the Fair Work Act for failing to pay out holiday pay and other entitlements, including leave loading and compassionate leave, reports The Australian.

Qantas Airway Limited (QAN): Qantas is suing an American flight training company for pulling out of a deal to run the airline's first pilot academy in Toowoomba four months before it was due to open. The alleged breach of contract saw the opening of the \$35m academy delayed several months, as Qantas sought a new training partner. At the time, L3 Commercial Training Solutions refused to provide a reason for its exit from the deal, saying only that the company had been "unable to reach an agreement with Qantas to move the project forward". Under the original contract, L3 Commercial was expected to provide instructors and about 40 single and twin-engine aircraft for the academy with a view to training 100 pilots in the first year. Qantas CEO Alan Joyce travelled to Toowoomba to announce the deal and the site of the first pilot academy, but a few months later the agreement was terminated by the airline, reports The Australian.

Sydney Airport Holdings Pty Ltd (SYD): Ratings agency Moody's says the outbreak of deadly SARS-like coronavirus in China poses a short-term risk for Australian airports as Chinese passengers now account for over 15 per cent of total short-stay tourism. Chinese authorities have shut down airport and transport networks in Wuhan, the city at the centre of the outbreak, amid efforts to contain the deadly disease as more than 100 million Chinese prepare to travel for the Lunar New Year. The coronavirus poses a much higher risk to Australian airports than the SARS epidemic in 2003 as Chinese passengers now account for over 15 per cent of total short-term inbound travellers compared to 4 per cent in 2003, said Moody's analyst, Hector Lim. Sydney Airport shares have dropped 4 per cent since the outbreak was announced on Monday, reports AFR.

Virgin Australia Holdings Ltd (VAH): Virgin Australia will ban the carriage of snub-nosed dogs altogether after a worrying spike in deaths of those breeds during domestic flights over summer. At least three dogs, including a boxer, a French bulldog and a British bulldog-cross, have died on Qantas flights, prompting that airline to temporarily suspend the carriage of snub-nosed breeds until a new policy is implemented. This included requiring customers wishing to transport snub-nosed breeds to have a veterinarian sign off on the dog's fitness for the flight. A Virgin Australia spokesman told The Australian that the airline had reviewed its own policy and decided the risks associated with snub-nosed breeds were too great, reports The Australian.



Need More Information?

Contact your State One Stockbroking advisor on 08 9288 3388 or 1300 651 898, or by email, advice@stateone.com.au

Disclaimer / Disclosure / General Advice Warning / Confidentiality Notice

This market opener and its contents always remain the property of State One Stockbroking Ltd (“State One”) and as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from State One.

The contents of this document constitute General Advice and have been prepared without taking account of your investment objectives, financial situation or needs. Because of that you should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

While State One believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed, and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One or any officer, agent or employee of State One. If applicable, you should obtain the Product Disclosure Statement relating to any relevant financial product mentioned in this document (which contains full details of the terms and conditions of the relevant financial product) and consider it before making any decision about whether to acquire the financial product.

The directors and associated persons of State One may have a long or short interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products. Additionally, State One may earn fees due to having been appointed advisors to or may be undertaking or about to commence research relating to, any of the companies mentioned herein.