



# Market Watch

## September 2018

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### Editor's Note

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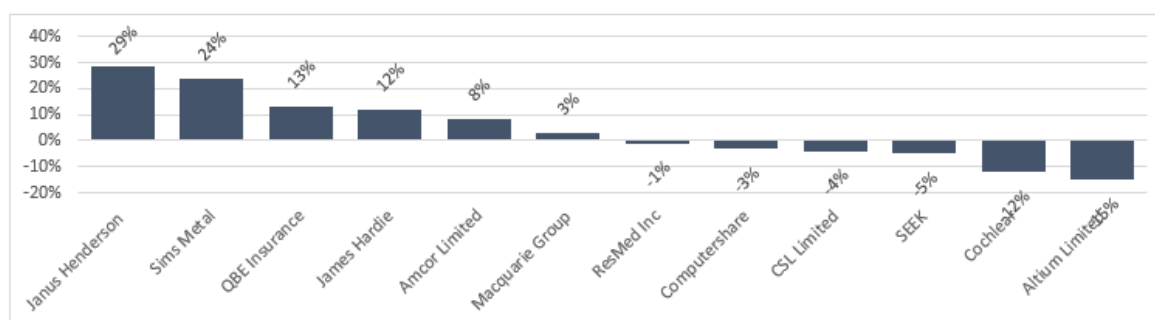
## A\$ leveraged plays

The US Fed's decision in June to lift the US central bank's cash rate to 1.75%-2%, while flagging the possibility of two more rate hikes in 2019, increased pressure on an already stressed Australian dollar. At current price levels of 0.728, the exchange rate is approaching its two-year low (0.718 in December 2016). We would not be surprised if, following the immediate "relief rally" in the currency following Scott Morrison replacing Malcolm Turnbull as Liberal Party leader and Prime Minister, the domestic currency weakens below the December 2016 low. While the 24-hour news cycle leads to much attention over short-term drivers of foreign exchange rates, the bigger picture is that nothing drives FX rates over the medium term other than yield differentials via the different rates central banks offer on cash and debt. If we accept that, inter alia, local employment, CPI, housing, and industrial growth data will be insufficiently strong to allow Australia's Reserve Bank to lift rates until well until 2019, then its yield differential with the U.S. dollar will widen further. In other words, holding Australian dollars, or AUD denominated debt will be increasingly unattractive to institutional investors versus high-yielding US money market and longer-dated date assets, with lower demand equaling a lower Aussie dollar. Consider that the global bond market is on most estimates more than double the size of the global stock market and you can see how demand for currencies is greatly influenced by different rates on debt and cash. This scenario suggests businesses leveraged to stronger U.S. growth and a weaker Australian dollar may do well. Relative to IRESS consensus target prices and FY19E dividend yields, our portfolio of (non-mining) A\$-leveraged plays sees the most upside in Janus Henderson (ASX:JHG), Sims Metals (ASX:SGM), and QBE Insurance (ASX:QBE). See table and graph below.

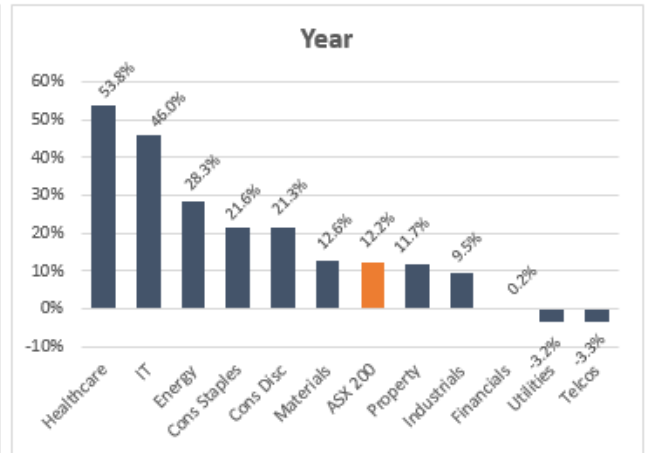
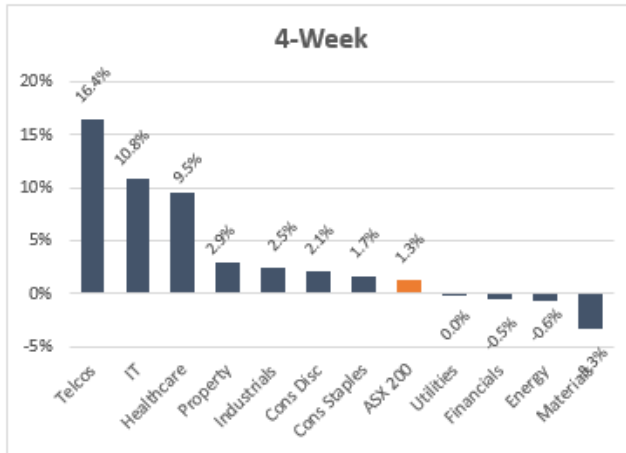
### Forecast total return for selected strong US economy/ A\$-leveraged plays

Security	Name	Share Price (A\$)	Target Price (A\$)	Capital upside / (downside) (%)	FY19E Dividend (A\$)	FY19E DY (%)	Total Return (%)
JHG	Janus Henderson	38.86	48.42	24.6%	1.59	4.1%	29%
SGM	Sims Metal	13.78	16.46	19.4%	0.63	4.6%	24%
QBE	QBE Insurance	10.78	11.64	8.0%	0.57	5.3%	13%
JHX	James Hardie	21.47	23.61	10.0%	0.47	2.2%	12%
AMC	Amcor Limited	14.41	15.15	5.1%	0.48	3.3%	8%
MQG	Macquarie Group	125.34	123.59	-1.4%	5.62	4.5%	3%
RMD	ResMed Inc	14.92	14.60	-2.1%	0.15	1.0%	-1%
CPU	Computershare	18.79	17.84	-5.1%	0.34	1.8%	-3%
CSL	CSL Limited	223.89	212.21	-5.2%	2.67	1.2%	-4%
SEEK	SEEK	21.61	20.10	-7.0%	0.45	2.1%	-5%
COH	Cochlear	212.00	183.14	-13.6%	3.31	1.6%	-12%
ALU	Altium Limited	27.46	23.02	-16.2%	0.37	1.3%	-15%

Source: IRESS, compiled by State One Stockbroking

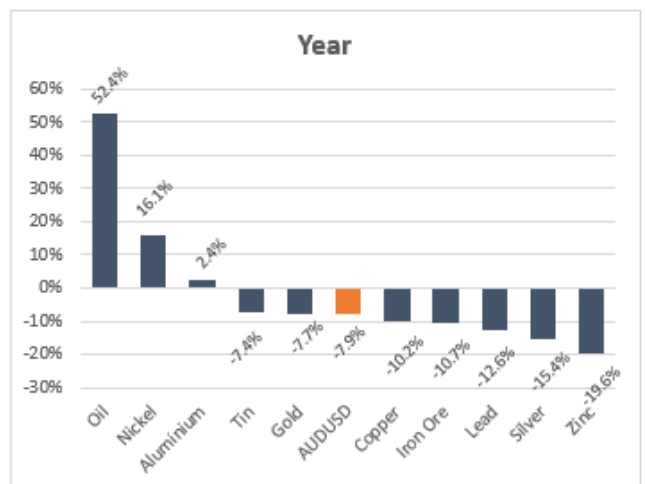
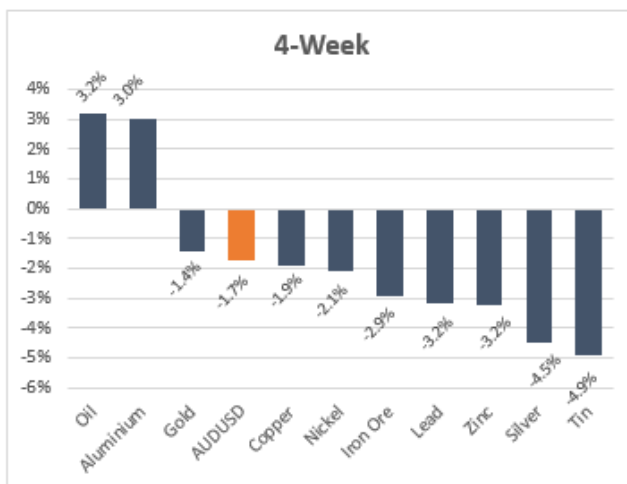


### ASX 200: sector performance over past four weeks and year



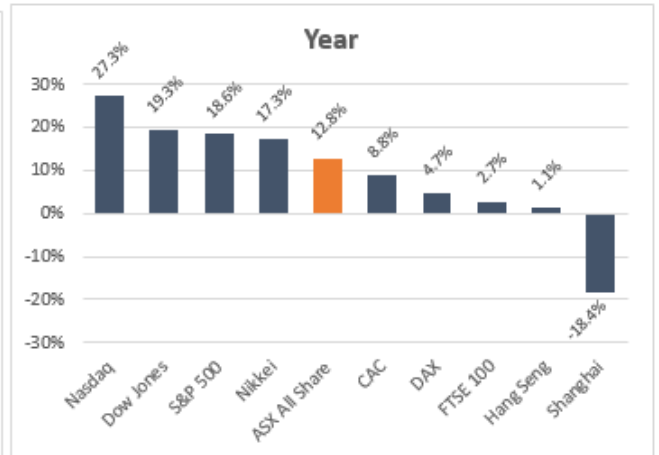
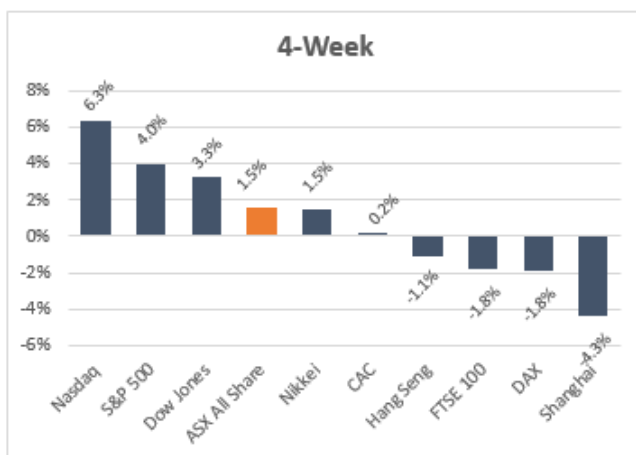
Source: IRESS, compiled by State One Stockbroking

### Commodities and AUDUSD: performance over past four weeks and year



Source: IRESS, compiled by State One Stockbroking

### World Indices: performance over past four weeks and year (local currency)

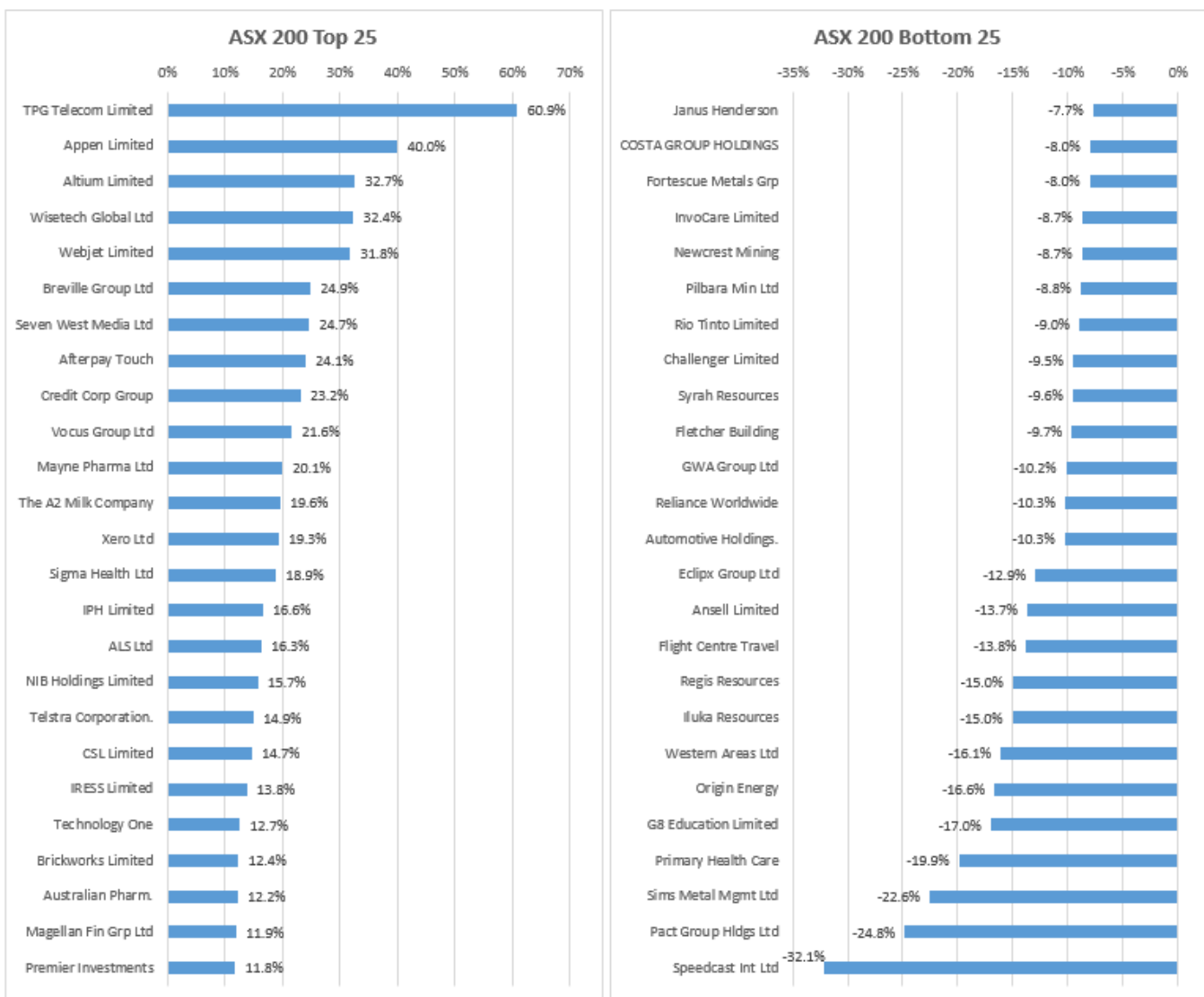


Source: IRESS, compiled by State One Stockbroking

## Commentary

- The FTSE/ASX 200 Index gained 1.3% in August, with the Telco sector, as in June, significantly outperforming all other sectors posting a positive return (+16.4%); Materials was the underperformer for the month, coming in at -3.3%.
- Commodities were mostly negative in August (as in July and June), with only 2 commodities (albeit heavyweight ones – Oil and Aluminum) posting gains of 3.2% and 3%. A weakening A\$ helped offset the weaker US\$ price environment.
- ASX equities underperformed global indices in August. However, over the past year, Australian equities have gained 12.8%, above average, but still a long way short of the buoyant US Nasdaq (+27%) and Dow Jones (+19%).

### ASX 200: top 25 and bottom 25 performing stocks over the past four weeks (% gain/loss)



Source: IRESS, compiled by State One Stockbroking

- **Top performer:** TPG Telecom (ASX: TPM) appreciated by 61% on the back of the proposed merger with Vodafone to create a new A\$15bn competitor in the telco space.
- **Worst performer:** Speedcast (ASX: SDA) down 32% as earnings and broker target prices are revised down following proposed US\$175m acquisition of Globecom.

## Month in review - events that caught our eye in August



The ASX is actively dissuading scores of immature tech companies from listing as it seeks to maintain standards and avoid reputational damage after the dramatic falls of Big Un and GetSwift.



Since peaking in September 2017, Australia's housing market downturn picks up steam with property prices falling at their fastest rate since 2012. Sydney leads the way with prices down 4.5%.



After tying for sixth at the British Open in July and a runner-up finish at the PGA Championship in August, roaring Tiger Woods now expects to win again.



Turkey's lira tumbles to record low against the US\$ on the back of growing concern over the country's economy and a diplomatic rift between Turkey and the US. Several emerging market currencies fall in response.



The US and Mexico agree to enter into a new trade deal to replace the North American Free Trade Agreement (NAFTA). Key to the deal was newly crafted rules for the automotive industry.



The government states it may resort to heavy-handed intervention - a "big stick" - to prevent electricity companies gouging customers.



The King is dead, long live the King! Scott Morrison replaces Malcolm Turnbull as head of the Liberal Party and becomes Australia's Prime Minister. Next federal election must be held by 18 May 2019. More changes to come?



Citing funding cost increases, Westpac announces a 14bp jump in its variable interest rate effective 19 September, independently of the Reserve Bank. New federal Treasurer Josh Frydenberg sends a "please explain" letter to the bank.



vodafone

In one of the biggest telecom deals ever seen in Australia, TPG Telecom (ASX:TPM) and Vodafone merge to form a A\$15bn company; merged entity to take on the country's telecom giants, Telstra (ASX:TLS) and Optus.

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