MARKET & ECONOMIC UPDATE: September 2019

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Spotlight on Trump

Market Update

- Trump has once again stolen the global spotlight. First, the US President announced a delay in tariff increases on Chinese goods, seen by many as a gesture of goodwill as China celebrated their 70th anniversary on Oct 1st. The move came just hours after China announced a tariff exemption on 16 US products.
- Trump then turned his focus domestically with particular reference to the US Fed and demanded a decrease in interest rates to 0 or below. Towards the end of the month, focus was back on China's approach to trade which lasted a day before suggesting a trade deal could be delivered sooner than expected.
- The US and Australian markets enjoyed a month of recovery after a tumultuous August. An improved trade rhetoric globally and an interest rate cuts in helped buoy the indices. The All Ords Accum Index rallied 2.13% while the S&P 500 Index advanced 1.72%.
- Oil prices spiked mid month following a drone attack on Saudi Aramco, the world's largest oil producer. The attack immediately cut global supplies by 5%. Oil prices didn't hold gains for long after Aramco revived 41% of capacity at a key crude processing complex just days after the aerial attack.
- The US Federal Open Market Committee (FOMC) has cut the benchmark overnight lending rate to a range of 1.75% to 2% on a 7-3 vote. Chairman Jerome Powell said the decision was to provide insurance against ongoing risks. Powell also pointed to a strong labour market and a favourable economic outlook. 'Ongoing risk' comments seem to be more about lowering the US dollar.
- Nickel prices surged after the Indonesian government signalled it would bring forward a ban on exports of the metal. It also called for the shutdown of the Ramu nickel project in PNG after a major spill of toxic slurry. Analysts are anticipating possible supply deficits of nickel over the coming decade.
- Iron ore prices recovered, largely supported by robust demand from steel mills and improved profit margins. It was also noted that Brazilian miner Vale was getting closer to the lower end of its revised shipment guidance of between 307mt to 332mt of the bulk commodity.

Market Performance

As at 30 Sept 2019	*Index*	1 month %	1 year %
Australian Leaders	*ASX200 Accum. Index*	*1.84%*	*12.47%*
Australian Market	*All Ords Accum Index*	*2.13%*	*12.08%*
US Shares	*S&P500*	*1.72%*	*2.15%*
US Tech shares	*NASDAQ Composite Index*	*0.46%*	*-0.58%*

Australian Economy

- Property prices rose for the 3rd consecutive month in Sydney and Melbourne markets, delivering 1.6% and 1.4% gains respectively. Nation wide, dwelling values expanded 0.8%, the first month since October 2017.
- Australia current account balance for the quarter came in at a $5.9b surplus, beating expectations of $1.5b surplus, up from -$1.1b deficit in the first quarter.
- Total lending rose 1.3% in July, contributed by a 3.9% increase in lending to households which was more than sufficient to offset a 1.1% decline in lending to businesses. Interest rate cuts, regulatory changes and the reinstatement of the Coalition government provided continued support.
- Consumer confidence and sentiment both fell in September, weighed down by rising pressure on family finances and concerns on the near term economic outlook. Similarly, business confidence and conditions declined further in August with trading and profitability sub-indices heading down.
- The unemployment rate ticked up to 5.3% in August vs expectations of 5.2%. Overall employment rose with 34.7k jobs added to the work force, though the increase was solely driven by part-time employment. The participation rate slightly increased to 66.2%.
- Job vacancies fell 0.1% in August versus a 0.4% increase in July. In 3 months to August, vacancies have fallen 1.9%. The fall was led by the private sector while vacancies in the public sector increased.

ASX200 Index

- The September quarterly index rebalance, effective 23rd September 2019, provided a lot of changes to the members of the ASX200 Index. CKF, GOR, JIN, NWL, PNV and SLR came in to replace ALG, API, ECX, EHL, PGH and SIG.
- The financials sector outperformed in September as the RBNZ's attempt to draw more capital out of Australian banks was blocked by APRA's APS 222 limit.

As at 30 September 2019	*Weight*	1 Month %	1 Year %
Communication Services	3.59%	-2.95%	8.79%
Consumer Discretionary	6.43%	2.98%	10.74%
Consumer Staples	5.92%	1.71%	19.60%
Energy	5.11%	4.66%	-9.06%
Financials	32.43%	4.10%	12.06%
Health Care	9.13%	-2.49%	15.65%
Industrials	8.18%	-0.03%	15.17%
Information Technology	2.41%	-0.59%	13.05%
Materials	17.40%	3.07%	15.96%
Real Estate	7.56%	-2.30%	15.87%
Utilities	1.85%	1.79%	10.91%

- The legislation limits Australian banks' exposure to foreign entities to 25% of Tier 1 capital, which allows Australian banks limited capacity to inject extra capital into New Zealand. IOOF (IFL) topped the sector following a landmark win against APRA. CYBG (CYB) finished the month 18% lower after the bank announced it had to increase provision for legacy PPI costs by between £300m and £400m.
- The energy sector performed relatively well in September despite high volatility. All oil stocks finished the month higher while coal stocks movements remained subdued.

Stock Review

- According to its Corporate Plan 2020, the NBN Co expected fewer premises to be connected to NBN during FY20, reducing their forecast from 2m to 1.5m. As a result, Telstra (TLS) revised its guidance. The telco anticipated FY21 to be the year of peak NBN headwinds. TPG (TPM) expected its FY19 revenue to fall 0.7% to $2.47b and EBITDA to fall 2.1% to $809m.
- Global travel company Thomas Cook has fallen into administration after 178 years of operation. Thomas Cook failed to secure the last £200m to avoid winding up, despite intensive rescue efforts from its major shareholder Fosun. Thomas Cook's collapse left 600k travellers and 31k employees stranded. The British government had to launch the largest peacetime repatriation effort in the nation's history to return travellers home.
- Webjet (WEB) previously expected total transaction value (TTV) of $150m-$200m in its WebBeds B2B business from Thomas Cook. Due to Thomas Cook's bankruptcy, WEB is now likely to take a $7m hit to its EBITDA. €27m of Thomas Cook outstanding receivables will be written off as an one-off expense. There will be no impact on 3k+ hotel contracts Webjet acquired from Thomas Cook in 2016, which are wholly owned by WebBeds and available for sale to all WebBeds customers.

Global Markets

- Chinese CPI rose 2.8% YoY in August, beating consensus of 2.6%, as food prices continued to surge. The PPI Index however continued to be hit by the trade war. The Index declined 0.8% YoY.
- The UK Prime Minister Boris Johnson's position was weakened in September after losing a working majority in parliament. Johnson faced a second defeat as MPs rejected his demand for an early election after passing a deal aimed at blocking a no-deal Brexit. Towards the end of the month, Britain's Supreme Court ruled Johnson's suspension of parliament unlawful.
- New Zealand GDP slowed during the second quarter, with GDP drifting to 0.5% QoQ from a 0.6% growth during previous corresponding period. Economic activity is likely to remain subdued throughout the remaining of 2019 as soft business conditions and weak global growth weigh on sentiment.
- Korean imports and exports plummeted in September. During the first 20 days of the month, exports and imports have fallen dramatically to 21.8% and 11.1% YoY respectively.

Key Indicators	31/8/19	30/9/19	Change
$AUD	US$0.6725	US$0.6759	⬆
Brent Crude Oil	US$59.19	US$60.03	⬆
Gold	US$1,529.20	US$1,499.20	⬇
RBA Cash Rate	1.00%	1.00%	⇦⇨
US 10y bond	1.50%	1.64%	⬆
Aust 10yr bond	0.89%	0.97%	⬆

For Further Information

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About Armytage

Armytage Private is a boutique investment specialist majority owned by members of its investment team and key executives. Founded in 1995, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed IMAs and managed funds.

Armytage is a Value manager with a fundamental investment approach designed to identify quality businesses trading at a considerable discount to valuation. The process is guided by three fundamental beliefs:

- Markets are not perfectly efficient and the true value of a business is not always reflected in its share price;
- Undervalued companies can be identified through detailed and intensive research; and
- Capital preservation is critical to wealth creation.

Products & Services

Investment strategies offered by Armytage include:

- Armytage Australian Equity Income Fund
- Armytage Strategic Opportunities Fund
- Armytage Individually Managed Account Service