



Rate cut ... once more

- The Australian market rallied for the 7th consecutive month as the All Ords Accum. Index posted a 2.96% gain in July. The US markets extended its June gains to July as investors anticipated the FED lowering interest rates at the next meeting. Both the NASDAQ and S&P500 Index reached their respective all time highs, driven by strong reports from tech giants, namely Google, Twitter and Facebook.
- The RBA has delivered an additional 25bp cut to the official cash rate following the first cut in June. According to the RBA, Australians should expect an extended period of low interest rates. Governor Lowe also defended the bank's inflation targeting regime, saying the bank was strongly committed to achieving its target. The RBA futures market has now fully priced in a cut to 0.75% by November, as well as implying another cut to 0.5% by February.
- The RBA Governor's dovish speech and a prolonged interest rate outlook pushed the AUD to its lowest level since the GFC.
- OPEC has agreed to extend oil supply reductions until March 2020, in an attempt to push oil prices higher amid weakening demand and rising US inventories.
- The US Energy Information Administration has lowered its 2019 forecast for oil global demand by 200,000 barrels per day, the sixth consecutive month it has revised its forecast. The downward revision reflects lower than expected consumption this year, in conjunction with slowing economic growth in many of the world's largest oil consuming countries.
- Treasurer Frydenberg said the government accepts the ACCC's conclusion that there is an overriding need for reform and to make digital platform players such as Google and Facebook more accountable. The ACCC released 23 recommendations that focus on competition law, consumer protection, media regulation and privacy law. The precise structure of the reforms and a detailed government response to ACCC's recommendations will be informed by a public consultation process.
- Lower bond yields, interest rates and a safe haven status continued to provide tailwinds to gold prices, which rose above US\$1400/ounce, finishing July 3.12% higher.
- NAB Business Confidence Index ticked up in June, driven by a big lift in employment. Consumer Confidence however has fallen to a two-year low as consumers become increasingly concerned about the state of the economy and employment security despite the prospect of income tax reductions and lower mortgage interest rates.

Market Update

As at 31 July 2019	Index	1 month %	1 year %
Australian Leaders	ASX200 Accum. Index	2.94%	13.26%
Australian Market	All Ords Accum Index	2.96%	12.94%
US Shares	S&P500	1.31%	5.83%
US Tech shares	NASDAQ Composite Index	2.11%	6.56%

Australian Economy

- Australian trade surplus reached \$5.7b in May, supported by strong iron ore exports, beating market expectations of a \$5.25b surplus.
- Job vacancies declined 1.1% in 3 months to May. Vacancies in the private sector decreased 1.1% while vacancies in the public sector rose 3.7% during the same period.
- Unemployment stayed at 5.2% in June, driven solely by additional 21,100 full time jobs. The participation rate remained steady at 66%.
- Lending to households fell 1.3% in May, making the total year decline 16.3%. The fall was driven by weaker lending for owner occupier dwellings (-2.7%) and investment dwellings (-1.7%).
- Building approvals fell 25.6% YoY as at the end of June 2019, missing expectations of a 24.3% decline. Approvals also dropped 1.2% from May to June, mainly due to a drop in apartments.
- David Jones' boss declared Australian retail industry is in a recession, whose view was opposed by the Australian Retail Association. ABS data shows retail sales in 2Qtr only grew 0.2% over the year, the worst result since 1991.

ASX200 Index

- The ASX200 Index has broken a new record as it smashed through its 6,851.5pt previous high set on 1 November 2007. Overall, the Index advanced 2.93% for the month of July with all sectors finishing in the black, supported by more monetary easing from the RBA.
- So far, 17 companies have reported their quarterly results in July with 75% surprising to the downside on sales and 50% surprising to the downside on earnings.
- Consumer Staples and Discretionary stocks performed generally well in July as lower interest rates and personal income tax cuts helped push consumer consumptions. Milk producers A2 (A2M) and Bellamy (BAL) saw the share prices rocket in July. Coles (COL) and Woolworths (WOW) also had a good month, up 6.37% and 7.19% respectively. Other retailers such as JB Hi-Fi (JBH) and Super

As at 31 July 2019	Weight	1 Month %	1 Year %
Communication Services	3.85%	2.94%	30.33%
Consumer Discretionary	6.13%	4.85%	7.90%
Consumer Staples	5.82%	9.79%	15.20%
Energy	5.19%	1.72%	-4.31%
Financials	31.62%	1.73%	8.00%
Health Care	8.79%	5.92%	17.32%
Industrials	8.31%	3.54%	19.20%
Information Technology	2.40%	4.41%	28.75%
Materials	18.54%	0.98%	22.63%
Real Estate	7.48%	3.15%	16.60%
Utilities	1.87%	1.93%	9.31%

Retail (SUL) also enjoyed positive trading conditions.

- o The Materials sector was polarized in July. On one hand, rising gold prices elevated gold miners (NCM, NST, EVN) to the top. On the other hand, iron ore miners (FMG, RIO, BHP) were down on the bottom as China port inventory drawdowns slowed down and supply continued to recover. Out of steam iron ore prices and news of president Trump reportedly signing an executive order to boost the use of domestic iron & steel gave BlueScope (BSL) a much needed share price recovery.

Stock Review

- o AMP warned investors that its \$3.3b deal to sell off its life insurance business to London based Resolution Life was unlikely to be finalised as the New Zealand Central Bank opposed the sale. AMP will not pay an interim dividend this financial year.
- o CIMIC Group reported 1H19 NPAT of \$367m, up 1% on the prior corresponding period. The result however is way below market's expectations. The weak result was driven by a decline in construction revenue and margins and disappointing cashflow data.
- o Lendlease (LLC) has signed a deal with Google to develop a range of large swathe of Google held land in the San Fran Bay area. 15,000 homes will be built over 10 to 15 years across three districts in the Bay area.
- o Woolworths (WOW) announced it will merge its drinks and hospitality businesses into a single entity to be known as Endeavour Group, which will subsequently be demerged and will start trading on the ASX100 as a separately listed company. The demerger will take place in 2020, subject to a shareholder vote at the AGM.

Global Markets

- o After a strong June, the US markets lost momentum throughout July, though still managed to finish the month in the black. The S&P500 and NASDAQ Index added 1.31% and 2.11% respectively.
- o More than half of US companies reported quarterly results in July, amongst which just under 60% beating consensus sales and 78% beating consensus earnings. Best performances were seen in Tech and Utilities sectors.
- o US macro data was generally positive through July. Manufacturing PMI beat expectations, coming in at 50.6 (vs. 50.1 exp). Payroll was very strong (224,000 vs 160,000 exp) and CPI came in at +0.1% MoM, also a beat.
- o China June industrial production growth was 6.3% YoY, higher than expected. Non manufacturing PMI however was a slight miss, at 53.7 vs 54 exp.
- o European equities were mixed in July. The STOXX600 finished lower as resources and oil & gas sectors underperformed, down 7.5% and 4.38% respectively. Food & Beverage sector improved 4.59%. Eurozone unemployment data was slightly weaker. Euro retail sales were also soft.
- o The FTSE outperformed in July as Boris Johnson secured a strong 66% victory in his bid for Prime Ministership.

Key Indicators	30/6/19	31/7/19	Change
\$AUD	US\$0.7026	US\$0.6875	↓
Brent Crude Oil	US\$65.86	US\$64.98	↓
Gold	US\$1,393.80	US\$1,437.30	↑
RBA Cash Rate	1.25%	1.00%	↓
US 10y bond	2.01%	2.06%	↑
Aust 10yr bond	1.32%	1.20%	↓

For Further Information

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About Armytage

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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:

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

Products & Services

Investment strategies offered by Armytage include:

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