Our view

Researchupdate

Australian Monthly Wrap

January Economic Wrap

The Australian market disappointed in January with the S&P/ASX 200 index falling 0.5% to 6038 points. Most global counterparts rallied on the improving global outlook which provided support for risk assets. At a sector level seven out of the 11 GICS sectors ended in the red, with the best performing sectors being Health Care (+3.1%) and IT (+2%), and worst performing sectors being Utilities (-4.5%) and Property Trusts (-3.3%) which helped drag the index lower, amidst rising bond yields.

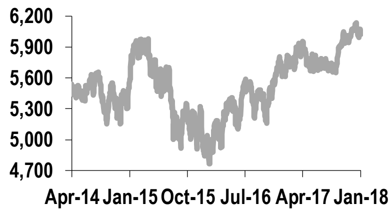
The labour market remained strong with the economy adding 35k jobs in December, bringing the annual total to 403k. NAB business confidence rose 4pts in December to 11pts, reaching the highest level since April 2017, while business conditions were stable at +13. The participation rate increased to a seven year high of 65.7%, which saw the unemployment rate move up to 5.6%. Q4 2017 CPI was soft, up 0.6% quarter on quarter. The consumer strengthened with retail sales up 1.2% in November while consumer confidence climbed to a 4-year high.

Global equity markets posted strong results over the month. The US government shut down for three days with a temporary spending bill being blocked in the Senate until the Democrats received assurances about immigration and border security issues. Even with political uncertainty around the shutdown, it was not enough to derail markets with the S&P 500 index gaining 5.6%. The NASDAQ also posted a strong 7.4% in January.

Key economic news – The Reserve Bank of Australia left the cash rate on hold at 1.50% as expected. The RBA Governor stressed that rates would likely remain unchanged for some time. He mentioned the key areas to watch would be the job market and that if inflation continued to hold near 2%, there would be no reason to either lift or cut rates. RBA also made no changes to forecasts for economic growth and underlying inflation. “It will be some time, however, before the economy reaches current estimates of full employment and inflation returns to the midpoint of the target.”

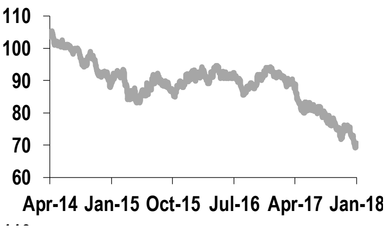
Key company news – The Commonwealth Bank named Matt Comyn (the former retail banking head) to become the next CEO of the bank. Shares in Sirtex Medical Limited soared over the month (66.2%) as the company agreed to a $1.6 billion takeover by US firm Varian. JB Hi-Fi was another stock that performed well over the month, supported by better than expected retail sales for November coupled with subsiding fears over the industry impact of Amazon. The worst performer of the month was Retail Food Group Limited which was down 20.9%, after it issued a second profit warning in less than a month, saying the timing of new licence agreements overseas would mean its half year net profit will be lower than the $22 million it predicted on December 19.

S&P/ASX 200 Price Index



Source: Bloomberg, IOOF

MSCI Australia relative to MSCI Asia Pacific ex Japan, US$ terms



Sector and stock returns

	ASX/S&P 200 Sectors (GICS)				Best and Worst S&P/ASX 200 Performers			
	Monthly	%∆	Quarterly	%∆	Top five stocks		Bottom five stocks	
▲	Consumer Discretionary	-0.25	Consumer Discretionary	4.23	Monthly			
▲	Consumer Staples	-0.10	Consumer Staples	4.72	Sirtex Medical Limited	+66.2%	Retail Food Group Ltd	-20.9%
▲	Energy	-0.52	Energy	10.09	JB Hi-Fi Limited	+17.2%	Navitas Limited	-14.1%
▼	Financials ex Property	-0.76	Financials ex Property	-1.93	Flight Centre Travel Group	+15.3%	Galaxy Resources Ltd	-13.3%
▼	Financials	-0.76	Financials	-1.93	Altium Limited	+14.7%	Iron Mountain Inc CDI	-12.6%
▲	Health Care	3.16	Health Care	5.70	ResMed Inc	+13.5%	Syrah Resources Ltd	-12.4%
▲	Industrials	-2.09	Industrials	-2.09	Quarterly			
▲	IT	1.95	IT	8.44	Sirtex Medical Limited	+101%	Retail Food Group Ltd	-55.6%
▲	Materials	0.50	Materials	8.61	Aconex Limited	+51.4%	G8 Education Ltd	-26.3%
▲	Property Trusts	-3.33	Property Trusts	0.48	Orocobre Limited	+49.0%	Iron Mountain Inc CDI	-18.5%
▼	Telecommunications	0.76	Telecommunications	4.64	Beach Energy Limited	+33.3%	Seven West Media	-16.3%
▲	Utilities	-4.48	Utilities	-6.94	Whitehaven Coal Ltd	+32.4%	Corporate Travel Mgmt	-15.8%

Source: Bloomberg, IOOF

Equity review

Major Market Performance, January 2018

	Australian Indices	Mth	%∆	Qtr	%∆
▼	S&P/ASX 200	6038	-0.45	5909	2.18
▼	All Ordinaries	6146	-0.34	5976	2.85
▼	Small Ordinaries	2754	-0.58	2593	6.22
	US Indices				
▲	S&P 500	2824	5.62	2575	9.65
▲	Dow Jones	26149	5.79	23377	11.86
▲	Nasdaq	7411	7.36	6728	10.16
	Asia Pacific Indices				
▲	Hang Seng	32887	9.92	28246	16.43
▲	Nikkei 225	23098	1.46	22012	4.94
	UK & Europe Indices				
▼	FTSE 100	7534	-2.01	7493	0.54
▲	CAC40	5482	3.19	5503	-0.39
▲	Dax Index	13189	2.10	13230	-0.30

Source: Bloomberg, IOOF

US equity market

The S&P 500 index finished the month up 5.6%, with only the rate sensitive sectors such as Utilities (-3.1%), Real Estate (-1.9%) and Telecoms (-0.6%), detracting from the index.

Australian equity market

The S&P/ASX 200 index finished the month down 0.5%. On a sector level, best performing sectors were Health Care (+3.1%) and IT (+2%), and worst performing sectors being Utilities (-4.5%) and Property Trusts (-3.3%) which helped drag the index lower.

Fixed Income

	Fixed Income	Mth	+/-	Qtr	+/-
	Aussie Cash rate	1.50	--	1.50	--
▲	10-year Bond Rate	2.81	6.96	2.67	5.40
▲	3-year Bond Rate	2.14	0.80	1.98	8.56
▼	90 Day Bank Accepted Bills SFE-Day	1.77	-0.50	1.6875	4.89
▲	US 10-year Bond Rate	2.71	12.46	2.38	13.69
▲	US 3-year Bond Rate	2.28	15.86	1.73	32.31

Source: Bloomberg, IOOF

Over the month of January, the Australian curve steepened during the month. The Australian 3-year bond yield rose 2.14%, while the 10-year bond yield rose 18.3bp to 2.81%.

The US curve also steepened during the month. The US 3-year bond yield rose to 2.28%, while the 10-year bond yield rose to 2.71%.

Currencies

	Currencies	Mth	%∆	Qtr	%∆
▲	$A vs $US	80.55	3.15	76.56	5.21
▼	$A vs GBP	56.77	-1.81	57.64	-1.51
▼	$A vs YEN	87.96	-0.08	87.01	1.10
▼	$A vs EUR	64.89	-0.26	65.74	-1.29
▼	$A vs $NZ	109.37	-0.64	111.84	-2.21
▼	$US vs EUR	80.56	-3.29	85.87	-6.18
▼	$US vs GBP	70.46	-4.81	75.28	-6.40
▼	$US vs CHF	93.13	-4.41	99.76	-6.65

Source: Bloomberg, IOOF

The Aussie Dollar appreciated 3.2% against the US dollar. US dollar weakness and strong commodity prices helped the Australian dollar to rise to $0.81 for the first time since 2015

The currency appreciated against its trading partners CNY (+0.3%), and KRW (+3.5%) while it depreciated against EUR (-0.3%) and JPY (-0.1%). In trade-weighted terms, the AUD appreciated 1.1%.

Commodities

	Commodities	Mth	%∆	Qtr	%∆
▼	Aluminium	2224	-1.91	2163	2.79
▼	Copper	320	-3.18	312	2.39
▲	Nickel	13566	6.50	12312	10.18
▲	Gold	1343	2.21	1279	5.04
▲	Silver	17	0.56	17	2.69
▲	Crude Oil - Brent	69	3.26	61	12.51
▲	Lead	2631	5.86	2417	8.88
▲	Zinc	3573	7.33	3261	9.55
▲	Iron Ore	75.86	6.43	60.31	25.78

Source: Bloomberg, IOOF

Commodities were mostly higher in January after receiving a substantial boost from furthering weakness in the US dollar. Precious metals, crude oil and bulk metals were higher in the month and base metals were mixed.

Crude oil was supported by larger than expected falls in US crude oil inventories as well as OPEC and Russia reaffirming their intention to keep production cuts in place until the end of 2018. In base metals, nickel (+6.5%) was one of the best performers, supported by a fall in inventories and supply shortfalls from major world suppliers. Precious metals were strong over the month with gold up 2.2% to US$1,343, a level not seen since the Brexit referendum in 2016 and silver was up 0.6%. The iron ore price was also supported by China's industrial production reading for December which indicated that crude steel production rose 1.8% month on month despite efforts to tackle overcapacity and combat pollution by closing steel mills.

Australia

With the Reserve Bank of Australia leaving the cash rate on hold at 1.50% as expected. The RBA also mentioned if inflation continues to hold near 2%, there will be no reason to either lift or cut rates. If the economy is healthy and there are few imbalances, then the economy will be in good shape over the course of 2018.

Retail sales numbers came in stronger than expected. The ABS did note sales over the period were influenced by the release of the iPhone X as well as Black Friday promotions. Under the household goods category iPhone purchases rose 4.6% month on month. Remaining categories were mixed with food sales flat, department store sales down 1.1% month on mouth, and cafes/restaurants in at +0.4% month on month, while clothing was firm at +1.6% month on month.

4Q CPI was weak, despite very large increases in volatile items (fresh food, fuel, and tobacco). Headline inflation was 0.6% quarter on quarter while core inflation maintained its recent soft run rate at 0.4% quarter on quarter. The Westpac Consumer Confidence Index rose 1.8% to 105.1 in January. The latest print represents the highest level for the index since December 2013. Longer-run economic expectations showed the most notable signs of improvement, up 5.3% month on month.

Building approvals soared 11.7% in November, in large part due to the higher density sector where approvals surged 36%. Higher density approval volumes were concentrated in Melbourne where volumes spiked 40% month on month while cities such as Sydney and Brisbane declined in volumes. Single family approvals, on the other hand, declined 3% over the month. New owner occupier mortgage commitments rose 2% month on month in November.

NAB business confidence jumped from +7 to +11 points in December, the highest level since April 2017. Meanwhile, business conditions were stable at +13. Trading and profitability conditions ticked up a point to +18 and +15 respectively while employment intentions, capex and forward orders eased modestly. Capacity utilisation was firm at 82.2%, up 0.5 percentage points from the prior month's print.

Employment growth surpassed expectations in December with the economy adding 35K jobs. The labour market added jobs in every month of 2017 bringing the annual total to 403K. During January, gains were skewed towards part-time employment (+19.5K) while full-time employment was up by 15.1K. The unemployment rate ticked up one-tenths to 5.6% after two months at 5.4%. The participation rate rose to 65.7%, marking a seven-year high for the series.

United States

In the United States 4Q real GDP growth came in at 2.6%, falling short of consensus expectations and down from the 3.2% growth rate registered in 3Q17. The unemployment rate held steady at 4.1%. Average hourly earnings rose 0.3% over the month while the average workweek was unchanged at 34.5 hours.

Headline CPI increased 0.1% in December while the ex-food and energy core CPI rose 0.3%, the firmest reading since January 2017. The trade deficit widened from $48.9bn in October to $50.5bn in November.

Industrial production increased 0.9% over the month of December with downward revisions to the prior month's print (from 0.2% to -0.1% in Nov). Capacity utilisation ticked up from 77.2% to 77.9%. The Philadelphia Fed Survey declined 5.7 points to 22.2 in January. The headline composite for manufacturing PMI edged up from 55.1 to 55.5 in the flash January report. Meanwhile, services PMI edged down from 53.7 to 53.3.

China

In China industrial profits slowed to 10.8% over the year in December vs. 14.9% in November owing to a moderation in PPI inflation while industrial activity growth remained steady in real terms. Out of 41 major industrial sectors, 37 registered profit growth in 2017. In particular, mining sector profits expanded 2.6 times in 2017, compared to the decline of 27.5% over a year ago in 2016. Manufacturing sector profits grew 18.2% in 2017 compared to a 12.3% rise in 2016. In particular, high-tech manufacturing profits outperformed with 20.3% over the year of growth, reflecting progress in industrial upgrading.

Industrial production rose 0.5% on a seasonally adjusted basis over the month of December, unchanged from the previous month. Fixed asset investment rose 7.2%, unchanged from November, though investment eased across manufacturing, real estate and infrastructure.

Overall credit growth has slowed with the official TSF (stock) rising 12.0% over the year in December, compared to 12.5% in November. Meanwhile, banks' new loan creation came in at CNY584.4 billion, down from CNY1,120 billion registered previously. The trade surplus widened from A$38.98bn to $54.69bn in December. Exports rose 10.9%, while imports slowed, rising 4.5%, following a 17.6% rise from the following month.

Europe

In Europe the European Central Bank (ECB) kept policy rates unchanged in its first meeting of the year. The opening policy statement prominently cited the currency as a "source of uncertainty which requires monitoring". While the ECB acknowledged the recent upbeat economic data, they also emphasized that there are still no "convincing signs of a sustained upward trend" in domestic price pressures. The ECB President Draghi also commented that, based on the current data, there are "very few chances at all" of a rate hike at the end of this year.

Composite PMI rose 0.5 point to 58.6 points in January. Composite employment and new orders indices were stable at 55.8 and 57.9 respectively. The composite input and output price indices posted large gains of 1.9 points and 1.4points respectively. At the sector level, the output index rose 0.9 points to 57.6 points in services and fell 1 point to 61.1 points in manufacturing. Breaking it down by country, Germany and France were unchanged at 58.8 points and 59.7 points, respectively, while the rest of the region rose by 1 point to 57.6 points.

Euro area retail sales and industrial manufacturing output both rose modestly in the last quarter with Core CPI rising 0.9% over the year. Consumer confidence rose 0.8 points to +1.3 points in January, suspended at its highest level since May 2000.

The euro area unemployment rate fell by another tenth to 8.7% in November, mainly due to accelerating declines in France and Italy. Euro area economic sentiment jumped 1.4 points to 116.0 points (a 17-year high) in January.

Company news

Resmed (RMD) continued its strong run since the release of the sleep apnea machine maker's results.

Santos (STO) in its December-quarter report showed total sales and revenue beat forecasts.

Oil Search (OSH) analysts boosted their target prices for the PNG-based oil and gas producer in the wake of its December-quarter report.

St Barbara (SBM) sank 3.9% immediately after several brokers cut their recommendations on the gold miner after its strong run over the last six weeks.

Australian Pharma Industries reaffirmed guidance for full-year net profit for FY18 to be "marginally ahead" of FY17 despite an expected 9% slide in first-half earnings.

QBE (QBE) flagged a full year loss of about $US1.2 billion (A$1.5 billion) on almost $US1 billion of one-off costs and blowouts associated with wildfires in California and Hurricane Maria in the Caribbean.

JB Hi-Fi (JBH) - Electronics retailer JB Hi-Fi has been ranked among the top 250 retailers in the world by Deloitte, due to consistent comparative sales growth and acquisition of whitegoods retailer The Good Guys in late 2016.

Domain Holdings (DHG) - Recently floated property portal Domain Holdings plunged 17.2% after the shock exit of CEO Antony Catalano, citing "family reasons".

McGrath Ltd (MEA) - Beleaguered real estate group McGrath plunged 13.8% immediately after issuing another profit warning and announcing the resignation of all board members bar founder John McGrath, who will assume the role of interim executive chairman.

Retail Food Group (RFG) was weak after it issued a second profit warning in less than a month, saying the timing of new licence agreements overseas would mean its half year net profit will be lower than the $22 million it predicted on December 19.

Suncorp (SUN) announced that claims from Melbourne's December hailstorm would damage first-half results by between $160 million and $170 million.

Incitec Pivot (IPL) - Shares in Incitec pivot were weaker after the company said yesterday it wouldn’t be the explosive products and services supplier for Roy Hill after its contract ends early next month

Dulux Group Limited (DLX) - Paint and adhesives supplier DuluxGroup lost 0.8% to $7.60, after winding back its China-facing operations as its DGL Camel International agreed to offload most of its Hong Kong and China coatings portfolio.

Billabong (BBG) has accepted a $1 a share cash takeover offer from Oaktree Capital Management's Boardriders made in December. Oaktree already holds 19% of Billabong, as one of its senior lenders. "The Billabong directors unanimously recommend the scheme," the company said in an ASX statement.

Source: ASX company announcements, Morningstar

Movers and Shakers for January 2018

ASX Code	Company Name	Closing price ($)	Month ago close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago close ($)	Year Δ (%)
SRX	Sirtex Medical Ltd	27.45	16.52	66.2	13.66	101.0	14.38	90.9
JBH	Jb Hi-Fi Ltd	29.23	24.94	17.2	22.90	27.6	27.65	5.7
FLT	Flight Centre Travel Group L	51.03	44.24	15.3	46.80	9.0	29.94	70.4
ALU	Altium Ltd	15.23	13.28	14.7	11.98	27.1	8.07	88.7
RMD	Resmed Inc-Cdi	12.47	10.99	13.5	10.83	15.1	8.93	39.6
REG	Regis Healthcare Ltd	3.97	3.52	12.8	3.64	9.1	4.37	-9.2
A2M	A2 Milk Co Ltd	8.29	7.37	12.5	7.62	8.8	2.12	291.0
WHC	Whitehaven Coal Ltd	4.94	4.46	10.8	3.73	32.4	2.84	73.9
S32	South32 Ltd	3.82	3.49	9.5	3.37	13.4	2.75	38.9
NEC	Nine Entertainment Co Holdin	1.68	1.54	9.4	1.50	12.0	1.00	68.8

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago close ($)	Year Δ (%)
RFG	Retail Food Group Ltd	1.96	2.47	-20.9	4.40	-55.6	6.44	-69.6
NVT	Navitas Ltd	4.68	5.45	-14.1	4.77	-1.9	4.43	5.6
GXY	Galaxy Resources Ltd	3.32	3.83	-13.3	3.45	-3.8	3.05	8.9
INM	Iron Mountain Inc-Cdi	42.40	48.51	-12.6	52.04	-18.5	46.89	-9.6
SYR	Syrah Resources Ltd	3.95	4.51	-12.4	3.37	17.2	3.05	29.5
ABP	Abacus Property Group	3.62	4.12	-12.1	3.80	-4.7	2.81	28.8
SAR	Saracen Mineral Holdings Ltd	1.49	1.69	-11.8	1.46	2.4	1.06	40.6
API	Australian Pharma Indus Ltd	1.50	1.69	-11.0	1.51	-0.3	1.89	-20.4
MIN	Mineral Resources Ltd	18.82	21.14	-11.0	17.40	8.2	12.29	53.1
HT1	Ht&E Ltd	1.70	1.88	-9.8	1.74	-2.3	2.54	-33.3

Source: Bloomberg, IOOF

Research Analyst – Daniel Stojanovski

Approved By – Paul Saliba

Research Analyst Disclosures:

I, Daniel Stojanovski, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject investment theme and/or company securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

I, Daniel Stojanovski, and/or entities in which I have a pecuniary interest, have an exposure to the following securities and/or managed products mentioned in this report: GXY

Important Information

This report is prepared by Bridges Financial Services Pty Limited ABN 60 003 474 977 AFSL 240837 (Bridges). Bridges is an ASX Market Participant and part of the IOOF group of companies.

Bridges and/or its associated entities, directors and/or its employees may have a material interest in, and may earn brokerage from, any securities or other financial products referred to in this document or may provide services to the company referred to in this report. The document is not available for distribution outside Australia and may not be passed on to any third person without the prior written consent of Bridges. Bridges and associated persons (including persons from whom information in this report is sourced) may do business or seek to do business with companies covered in its research reports. As a result, investors should be aware that the firms or other such persons may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

The document is current as at the date of issue but may be superseded by future publications. You can confirm the currency of this document by checking the intranet site (links below).

The information contained in this report is for the sole use of advisers and clients of AFSL entities authorised by Bridges in writing. This report may be used on the express condition that you have obtained a copy of the Bridges Financial Services Guide (FSG) from the website www.bridges.com.au/fsg

Disclaimer: The information in this report is general advice only and does not take into account the financial circumstances, needs and objectives of any particular investor. Before acting on the advice contained in this document, you should assess your own circumstances or seek advice from a financial adviser. Where applicable, you should obtain and consider a copy of the Product Disclosure Statement, prospectus or other disclosure material relevant to the financial product before making a decision to acquire a financial product. It is important to note that investments may go up and down and past performance is not an indicator of future performance.

The contents of this report should not be disclosed, in whole or in part, to any other party without the prior consent of Bridges. To the extent permitted by the law, Bridges and its associated entities are not liable for any loss or damage arising from, or in relation to, the contents of this report.

For information regarding any potential conflicts of interest and analyst holdings; IOOF Research Team's coverage criteria, methodology and spread of ratings; and summary information about the qualifications and experience of the IOOF Research Team please visit https://www.ioof.com.au/adviser/investment_funds/ioof_advice_research_process