

9th December 2019

Equity markets confused on mixed trade war messaging

MARKETS

- **Equity markets were mixed** following concerns a phase 1 trade deal might not be forthcoming whilst Eurozone and Chinese economic data surprised on the up.
- **In local stock news, Santos has lifted its 2025 production target to 120 million barrels of oil** equivalent, up from the previous target of 100 million. The new target would represent an annual growth rate of 8% to 2025. The company also said that their breakeven oil price is now US\$29 a barrel.
- **Caltex's board has rebuffed the \$8.6bn takeover offer from Canadian convenience store operator Alimentation Couche-Tard** saying the offer undervalues the company. Caltex has proceeded with the initial sale of petrol stations for \$136m and also announced they are looking to raise between \$300-\$500m in hybrid securities in the 1st half of next year to strengthen its balance sheet.
- **oOh! Media shares soared after the outdoor advertising company upgraded its earning guidance.** A good start, but still some work to be done to restore full confidence.
- **The Reserve Bank of New Zealand has watered down its original proposals regarding increasing bank capital requirements,** which would hit Aussie banks' NZ operations. Banks' will either pass on costs to NZ customers or shrink their operations in NZ.
- **The oil price rose after reports that OPEC would deepen supply cuts** to keep the oil price higher.
- **The Aussie dollar rose** after the cash rate remained unchanged and a bigger current account surplus than expected.



Until next week...

Chris Lioutas

ECONOMICS

- **The Reserve Bank of Australia left the cash rate unchanged**, preferring to adopt a wait and see approach. The problem is data is weakening and likely to weaken further leading into the Christmas period and the next rate decision isn't until February.
- **The Australian economy grew at a pace of 0.4% in the 3rd quarter**, lifting the annual growth rate to 1.7%. Growth remains weak, and is currently well below the Reserve Bank's forecasts.
- **Australian retail spending flatlined in October**, showing that the government's tax cuts and lower interest rates weren't assisting. Consumers were instead paying down debt or increasing their savings. Outlook for the Christmas shopping period looks bleak.
- **The number of Australian building approvals fell sharply in October**, with economists expecting the decline to continue well into next year.
- **The number of Australian job ads fell 1.7% in November**, which follows a 1% fall in October. Expectations are for employment growth to decline into 2020.
- **Australia has recorded two consecutive current account surpluses for the 1st time in 46 years**, with the surplus hitting almost \$8bn in the 3rd quarter. Whilst the headline surplus shows the economy performing well from an export value perspective, the number also shows the domestic economy is slowing.
- **Australian company operating profits for the 3rd quarter declined more than expected** whilst inventories were also weaker.
- **A report showed US manufacturing activity contracted in November** for the 4th consecutive month.
- **Eurozone data surprised in November** with inflation accelerating faster than expected, manufacturing looks to have bottomed with a slight rise, whilst German unemployment declined.
- **China's factory activity expanded at the quickest pace in almost 3 years in November**, with strong increases in output and new orders. This helped pushed the manufacturing sector into expansionary territory.



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POLITICS

- **A potential phase 1 trade deal was made uncertain** after President Trump confirmed US laws backing pro-democracy protestors in Hong Kong. Probably not the best timing when you're nearing completion of a long awaited trade deal. Trump also mentioned that a deal may have to wait until after the US elections. No deal before December 15 would result in another round of US tariffs. The Chinese are holding out for reversal of current tariffs to be included in any deal.
- **President Trump's administration moved the trade war machine onto Brazil and Argentina**, restoring tariffs on their steel exports, whilst also threatening tariffs on imports from France, after the French implemented a digital tax in order to capture lost tax revenues from companies using tax havens.



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Chris Lioutas

A handwritten signature in black ink, appearing to read 'C. Lioutas', written in a cursive style.