Sunset Strip

Market Snapshot after close & Intraday S&P 200 Chart

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<th>Categories</th>
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<th>% Daily Change</th>
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➤ MARKET SUMMARY

MACRO/STOCK EVENTS:

Tonight – US Election Outcome. Overseas data: EC economic forecasts; German CPI; UK trade balance Sept.

Tomorrow – Australia Home Loans; China Aggregate Financing; New Zealand RBNZ MPS/OCR Review; US Fed’s William speech.

CHART OF THE DAY:

The charts below (source: www.cnn.com) shows that the Republican Presidential candidate holds a substantial path to the Oval office. The latest data suggest that Republican Party has control of the house and slightly ahead in a tight race for control of the senate. There is a substantial chance that Republican Party will control all three layer of government.

MARKET COMMENTARY:

Aussie Market > Market started on holding pattern and then the pain was unleashed as the votes started to pile up against what the market was pricing in. We are likely to see a few days of panic while the market settles down. We don’t see this being a prolonged negative for the local markets as any trade risks will see AUD/USD fall and buffer the effect. Republican Party is likely to control all three layers of government and that will raise risks. If they do go down the path of trade restrictions, then opposing countries are most likely to experience currency devaluation by design.
or by manipulation. We see a substantially high probability that US Fed will not move in 2016 while US multi-nationals are likely to run into growth risks as other countries retaliate. The clear signal to all governments and central banks from Brexit and US election is that top down economics has not delivered for the majority and they are not going to be rational and put up with it. The agent for change has mainly become a side issue and most likely will not deliver much at all. The trend suggests that Italian referendum and the French election next year are likely to really challenge the future of EU. We are going to see profit taking and volatility atleast till the end of the week, but this will be another buying opportunity for quality growth and yield stocks!!! Short term shocks deliver long term buying opportunity!!! The sun will come up tomorrow and market will over react. We will all use phones, go to shops, get a coffee, do banking, use transport, get sick, buy medicine and even go to the hospital. Look at sectors that continue to deliver stable economic services in tough environment and buy the growth for the long term!!! US futures reached 5% drop and locked itself up from further trade...it will get messy tonight!!!

- **BANK SECTOR** > Technical down trend is broken...two out of the big four to go ex div on the 14th of Nov...yield trade is back on...expect Banks to run on dividend hunters and better rates outlook from US. Global banks including wonky DB has delivered relatively positive result updates...local bank updates did not deliver any bombs.

- **TECH GROWTH IDEAS** > Time to start looking at MITCH (Media, Information, Telco, Consumer and Health) sectors for growth ideas...esp in the small cap space!!! Recent pullback is offering some quality bargains like CSL, RHC, MYX, TPM, VOC, IFM, APO, QMS etc!!

- **GOLD SECTOR** > As we have been telling clients for a number of months.....Iron Ore became a buy when it bounced above $50....Oil became a buy when it went below $40 and bounced....Gold has fallen below $1300 and we expect it to bounce back above $1300 to confirm our positive view...and now it has!!

- **AMAZON IS COMING** > Discretionary retailers and Supermarkets better get ready....it's the Netflix of retailers. JBH and HVN are in for serious pain. WES and WOW are going to lose more margin and the turnaround will take longer. Specialist retailers like SUL, PMV and KMD have brand protection....but low cost competitors are coming via Amazon. TRS, Big W and Target are going to get attacked violently while K Mart will get hurt despite the better model.

- **SUPERMARKETS** > WES result was below expectations as we expected....be aware that the whole supermarket sector is trading at optimistic levels with rising competition and shrinking margins. WOW and MTS are cruising for a bruising at these multiples. MTS has hardware model rejig positive while WOW is holding on to more divestments...but the underlying models are not going to recover in an environment where consumer costs are rising faster than disposable income. WOW sales update showed growth was slightly better than expected but that was achieved by decent cuts to prices...that means lower margins...it’s trading at a premium to WES!!! Latest update from Aldi shows the challenge is out there and the newbie is taking market share!!!

- **WOW Divestments** > Petrol sheds on the chopping block is getting a number of suitors....Caltex, BP et al. Caltex likely to run into ACCC, but if they get the deal...Caltex is in for another leg up to new highs...but low probability...if they don’t, they might lose the supply deal!!! Liquor business is being thrown around and logic suggests they should punt it with hotels and pokies...but that does sell some of the family jewels and restrict the upside in a few years.

- **RBA Update** > Summary of what RBA said: (1) Things are all moving in the right direction (2) happy with rates where they are (3) inflation and employment etc. will catch up over time. 

**Summary of what RBA really wanted to say:** (1) we have asset bubbles (2) we have no control over currency or inflation (3) employment market is weaker than it looks (4) wages growth will remain weak (5) fiscal policy reform does not exist (6) we are stuck between selling everything to China and whacky leadership war in US (7) we have historically high household debt and it’s going to get worse (8) our monetary policy changes over the last 2 years delivered negative marginal return to the overall financial system stability (9) we are stuck on low rates till some foreign power does something to change the overall global picture (10) rising commodity prices will raise inflation and eventually force us to raise rates despite weak underlying economy.

- **ECB Debacle** > Brexit in play, Italian referendum in early Dec and French election in 2017...there is more road blocks for recovery than you can poke a stick at. **US Fed may never get the chance to**
raise rates in 2016 if Italy plays hard ball...and 2017 may be out if French protectionism breaks down EU all together.

- **US Reporting Season** > The reporting season is at the early stages and will be in play for the rest of October. Stretched multiples and mature global models with rising rates will test markets in the short term. Financials have started well and likely to support the market.

- **AUDUSD** > Higher currency will drive more global investors into our market and they will push up our banks on better sentiment on financials as deflation worries subside. We continue to expect the currency to trend higher as risk appetite returns with subsiding macro worries.

- **M&A Media** > Federal government is slowly getting through regulatory change to drive sector consolidation. Foxtel float is coming...the packaging has started as more and more customers on different platforms are being pushed into the Foxtel model. Globally there is a trend for low growth Telcos taking over structurally challenged media...TLS and FXJ anyone!!!

- **M&A Mining Services** > Services sector remains in play....BKN has a bid...now media articles pointing to WTP plating defence....more to come in this sector....BKN substantial in ANG....ANG’s recent trading update confirms our positive view...watch this space!!!

- **Housing Bubble** > We maintain our view from early 2014 that housing bubble will start to roll over in late 2016 with oversupply in apartments and developer financing issues!!! RBA supports our view and warned that the bank profits may be hit and yields may suffer.

**Interesting moves of the day...**

1. SAR (+15%) on spot gold bounce after US election driving up global trade risks
2. EVN (+11%) on spot gold bounce after US election driving up global trade risks
3. OGC (+11%) on spot gold bounce after US election driving up global trade risks
4. MNS (-12%) on weaker demand worry for graphite with global growth risk rising
5. BPT (-10%) on weaker demand worry for oil with global growth risk rising
6. GXY (-9%) on weaker demand worry for lithium with global growth risk rising

Federal government is already in trouble in multiple policy areas...regulatory risk in number of sectors are rising....we have already seen banks, super, education, aged care, salary packaging take a hit....what more could be on the bash list > tourism, retail, supermarket, gambling, energy retailers, asset managers and construction are a few areas to keep an eye on as cross bench takes charge from weak government!!!

**Gold macro risk trade ideas since May:**

- **Daily Double** > Buy gold for Brexit and Trump win....Spot gold going to US$1500!!!
- **Box Trifecta** > Buy gold for Brexit, US inflation and Trump win....Spot gold going to US$2000!!!

**Main thematics** > central banks, stimulus, rate cycle, yield, currency, safety, global diversification, demographic changes, Asian middle class

**Preferred Sectors** > Banks, Miners, Energy, Gold, Infrastructure, Specialty Consumer, Tourism, Utilities, Small Cap Industrials, MITCH (i.e. Media, Information, Telco, Consumer and Health)

**Take Profit Sectors** > Residential Property, Domestic Consumer Sectors, Discretionary Retail, Supermarkets

Best picks, stock level information, sector breakdown and performance analysis starts on page 7. The stock ideas of the day are IPH for growth/Asia thematic, IFM for growth/tech thematic, IMF for growth/yield thematic and COM for growth/services thematic.
MARKET MACRO SUMMARY

We maintain our long term bull market view from 2012. It was based on weakness in interest rates, currency, economic growth, commodities and government policy while asset prices and dividend yield thematic will be the key positive drivers. Global investors looking for yield are likely to react in line with AUDUSD.

- Currency to pull back to high 60's in the back end of 2017 with local economic slowdown, recovering US and China slowdown.
- Tidal wave of unemployment to push it up to 6.0% in 2016H2 and remain above 6.5% into 2017.
- Consumer sentiment expected to remain low into 2017 due to underemployment, property bubble, falling disposable income and government policy backflips.
- Property bubble in the making in parts of Australia and that will eventually come back to bite margin loan unit investors.
- Strong currency and economic woes will drive RBA to cut interest rates down to 1.25% in 2017...next cut in 2017H1
- Investors after solid return to cover rising costs will chase equity dividend yield over fixed interest investments.
- Global economy is expected to experience more growth downgrades, currency wars and stimulus plans.
- Iron Ore and Oil price to average below $60 over the next 12mths.
- For more customised service or further macro views, please contact Baillieu Holst or refer to the latest edition of “Equity Market Engineer, Equity Resources Engineer, Equity Financial Engineer and Equity Industrial Engineer” publications.

INVESTMENT MOTTO: “Life is all about cycles. You evolve with the cycle or the cycle runs over you.”
AROUND THE GROUNDS

Source – www.money.cnn.com

US FEAR AND GREED INDEX

Source – www.money.cnn.com
**TRADING IDEA OF THE DAY**

**IPH Limited (IPH)** – Baillieu Holst Industrial Analyst Nick Caley has **BUY** rating and $7.05 price target. Investment view: BUY retained with DCF valuation of A$7.07 (prev. A$7.43) and price target of A$7.05 (prev. A$7.45) – lower valuation due to change on FX assumptions. Notwithstanding the looming escrow related share sell-down from November 19, 2016 we continue rate IPH as a BUY based upon: 1) full period inclusion of recent acquisitions in 2H16 and 1H17; 2) growing the Asian footprint through organic means, acquisitions, opening new offices in the region and leveraging recent domestic acquisition into Asia; 3) attaining efficiencies from recent acquisitions through combining back office services; 4) continuing to grow the data business Practice Insights; and 5) looking at opportunities in the patent renewals industry.

**CHART IDEA OF THE DAY**

**Infomedia (IFM)** – Baillieu Holst Industrial Analyst Nicolas Burgess has **BUY** rating and $0.85 price target. Investment view: IFM has moved quickly to address bottlenecks in its sales and delivery capability. As these continue to unwind, it should see an improving growth outlook. Indeed, IFM expects its monthly recurring revenue growth to increase from 5% to 10%+ by June 2017. The Nissan contract win provides support to these growth expectations and validation of the Superservice product. Meanwhile, the company remains well capitalised with net cash of $14.7m at 30 June. We retain a BUY rating.
WEDNESDAY’S STAR IDEA OF THE DAY

IMF Bentham (IMF) – Baillieu Holst Industrial Analyst Nick Caley has BUY rating and $2.05 price target. Investment view: BUY retained with unchanged DCF valuation of A$2.06 and price target of A$2.05. Although the IMF share price has enjoyed a strong rally from its sub A$1.00 in early 2016 we retain our BUY call based upon: 1) valuation; 2) IMF’s track record of successful case wins/settlements; 3) the strength of its rapidly growing US franchise which remains in the early days of tapping a much larger market and should now start to benefit from an increase in the velocity of case outcomes; 4) IMF’s freedom to return to Europe in July 2017 after the expiry of a restraint period; 5) improved liquidity and balance sheet strength post the A$32m unlisted bond issue and case settlements; and 6) a reasonably strong start to FY17 from the Rivercity matter.

MINI CAP HIGH RISK LONG TERM GROWTH IDEA OF THE DAY

ComOps Ltd (COM) – ComOps Limited (COM) is a provider of workforce management software and services for Australian and international customers with market cap around $11m. ComOps, under the brand names e-Tivity, Microster, Rostima and Salvus, provides effective Workforce Management Solutions including Rostering & Scheduling, Award Interpretation, Labour Cost Management, Fatigue Risk Management, Leave Management, Time & Attendance, Employee Self-Service Portals, Risk Management & Safety Compliance and Workforce Analytics. ComOps supports more than 180 customers in over 5,800 locations globally, including leading organisations within global ports, aviation, transportation, retail, hospitality and health. The highlights from the recent quarterly are (1) Positive operating cashflows with cash balances continuing to remain strong (2) Second quarter closing cash balances increase to over $1.6 million (3) Continued fast tracked investment in operating capability and development of ComOps’ new WFM product (4) 3 new logo customers signed & the overall quality of the sales pipeline continues to improve (5) Business continuing to gain positive momentum. (Disclaimer – I own COM shares)
Stock Performance Breakdown

➢ MARKET MOVERS AND SHAKERS

Top 10 Best and Worst Performers (%)

➢ MAJOR SECTOR PERFORMANCES OVER THE DAY

Major Sector Daily Change (%)
## Today's Top 30 Winners and Losers in S&P 300

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**CHECKING S&P 300 BY THE SECTOR**

**Energy stocks: OPEC supply deal driving sector higher. We moved to buy on the sector as oil bounced from $40 as the market priced in supply/demand expectations to tighten in 2017/18!!!**

**News Snippet:**

- **Caltex** – Rarely has a $95 million deal from a $7.8 billion company sparked such a reaction. But Caltex Australia’s purchase of Victoria’s Mileminder Petroleum – a fuel retailer with 46 leasehold sites already supplied by Caltex – could speak volumes about its intentions on a much bigger matter. Caltex had been seeking to buy Woolworths’ $1.6 billion odd petrol business. However, BP is the frontrunner in that auction, leaving Caltex at risk of losing both the auction and its 3.5 billion litres a year supply contract to Woolworths. And now it appears Caltex is moving on to other potential sources of growth, according to analysts, “CTX management are confident in being able to replace foregone profits if they lose the WOW supply agreement,” Citi analysts told clients on Tuesday morning. “Opportunities include payments for infrastructure use, return of alliance service stations, reduced competition and higher margins, ACCC spin off of some WOW stations for CTX to grow to footprint, further small scale M&A, buy-backs and an accelerated convenience strategy. “We estimate these opportunities combined could add 20 per cent to CY18 EPS estimates, more than offsetting lost earnings from WOW.” Credit Suisse analysts said there were many ways investors could interpret Caltex’s latest move. “Whilst another 46 sites being acquired in Victoria (where Caltex are under-penetrated, and do supply these sites anyway), might not be an ACCC deal breaker, it would hardly make the Woolworths review process easier,” Credit Suisse’s team told clients. “If we were Woolworths, we would be extremely worried that our mooted underbidder may no longer be there. Or, if you did want that under bidder back, you maybe have until 31st January 2017 when this deal is supposed to be completed.” AFR

- **Coal Market** – Spot metallurgical coal topped $US300 a tonne for the first time since flooding in Australia curbed output from the world’s biggest seaborne exporter five years ago. Hard coking coal rose to $US307.20 a tonne on Tuesday, extending a surge that has seen the price more almost quadruple since the start of June. Miners and Japanese steelmakers agreed to a three-month supply contract at a record $US330 for the second quarter of 2011 after heavy rain and flooding crimped production in Queensland. Chinese demand has driven the price surge this year. China’s efforts to cut overcapacity in its coal industry have reduced domestic supply and boosted imports of both metallurgical and the variety burned in power stations. While Chinese purchases remained above 20 million tonnes in October for a fifth month, producers from BHP Billiton to Japan’s biggest trading houses predict prices will ease for coking coal. “The impact on Chinese domestic supply has resulted in significant import demand,” said Daniel Tan, an analyst with Macquarie, in a note. “While prices might ease from here, we expect the price to stay well above $US150.”

**Material (Ex Mining) stocks:** Sector looks stretched with investors chasing safe yield, but the growth outlook in chemicals are showing value after recent pullback. Sector back in “selective buy” area in chemical stocks.

**News Snippet:**

- **Incitec Pivot** – Incitec Pivot chief executive James Fazzino says the outlook for commodity prices is more positive than six months ago but the explosives and fertiliser manufacturer still expects challenging conditions to persist in its key markets in 2017. The company’s net profit plummeted 68 per cent to $128.1 million in the year to September 30, dragged down by a 63 per cent decline in earnings from its global fertiliser division and $105.6 million impairment on its Gibson Island fertiliser plant in Queensland, recorded in the first half. “The markets were tough given the downturn in the global resources industry and also fertiliser prices which were at or towards cyclical lows,” Mr Fazzino said. Incitec Pivot said cyclical and structural factors, including a steep decline in commodity prices and mine closures or cutbacks, knocked its underlying earnings before interest and taxes by $231.4 million during the period to $428.1 million, in line with analysts’ expectations. The 2017 financial year is unlikely to be much better, the company warned, given it expected weak global fertiliser prices to persist and its mining customers to continue to focus on reducing costs, despite the stunning surge in coking coal and thermal coal prices in recent months. Incitec shares closed down 1 per cent to $2.96 on Tuesday, down 26 per cent from a 12-month high of $3.98 in January. AFR
**Gold stocks**: Global risks keep Gold spot in good level. Sector remains the best commodity pick with upcycle...profit taking was due to strengthening USD...but macro market issues will drive the next leg up!!! We expect support around US$1250-1260 level.

**News Snippet:**

- **None**

**Mining (Ex Gold) stocks**: Miners to benefit from weaker USD and central bank stimulus. Sector now offering risky high beta small caps and safer cash churning big miners!!!

**News Snippet:**

- **Fortescue Metals Group** – You’d more likely read about Hugh Hefner banning surgically enhanced breasts from his Playboy mansion: Andrew Forrest’s Fortescue Metals Group – the third force in iron ore, menace of big, bad BHP, rapacious Rio Tinto, defender of the little man and prolific media talent – has banned journalists from a critical part of its annual general meeting in Perth on Wednesday. Well at least it had until Perth's finest scribes – already cranky about Crown Resorts' over-the-top restrictions at its own AGM on October 20 – lost their lunch at the decree was “probably over the top”.

**WA Mining Tax** – Moody's Investor Services has confirmed it is keeping a "watching brief" on the progress of Brendan Grylls' plan to deflake Western Australia's debt balloon by inflicting a new tax on the state's two biggest exporters. On Tuesday Moody's affirmed its Aa2 rating on Western Australia's debt and assessed a stable outlook for the short-term debt solution promoted by the state's new National Party leader, Mr Grylls. The Grylls case for intractability of a state's debt problem that has been triggered by falling commodities prices, the end of a long capital investment boom and a devilish Commonwealth that refused to offer WA its fair share of GST revenues. No doubt Commonwealth grants – that will eventually offset losses due to own source revenue declines – and some progress in reducing its pace of expenditure growth”. The rating agency's sanguinity may come as a surprise to those magnetised to the short-term debt solution promoted by the state's new National Party leader, Mr Grylls. The Grylls case for stripping an extra $3 billion a year from the iron ore cash flows of Rio Tinto and BHP Billiton is sustained by the intractability of a state's debt problem that has been triggered by falling commodities prices, the end of a long capital investment boom and a devilish Commonwealth that refused to offer WA its fair share of GST revenues. No doubt Moody's assesses that the medium-term outlook is difficult, with state deficits likely to average nearly 11 per cent of revenues over the medium term. But from 2018 those deficits will narrow rapidly as GST grants rise and spending increases are curtailed.

**AFR**
### News Snippet:

- **Industrial stocks:** Value beginning to show after recent pullback with selective exposures worth looking into. **Sector in selective buy in unique service sectors.**

- **Austin Engineering** – Austin Engineering has stockbroker Blue Ocean Equities back in the market for fresh funds on Tuesday, only months after recapitalising the company with a two-for-one rights issue. Blue Ocean Equities contacted fund managers on Tuesday morning, seeking buyers for new shares to be issued at 16¢ each. The offer was priced at a 13.5 per cent discount to the last close and an 18.7 per cent discount to the 15-day volume weighted average price. The share placement was seeking to raise $8.4 million and funds raised were pegged for working capital and supporting recent contract wins, according to terms sent to potential investors. Blue Ocean Equities was seeking bids by 4pm Tuesday. The raising comes less than five months after Austin recapitalised the company with a two-for-one entitlement offer and share placement which together raised nearly $30 million. That deal was done at 8¢ a share. Austin Engineering is a designed and maker of "large yellow good" components and maintenance services provider to the mining industry. The company's shares went into a trading halt on Tuesday ahead of the placement. **AFR**

- **Cabcharge Australia** – Cabcharge Australia's biggest shareholders are poised for a fight. Street Talk understands the taxi company's two biggest investors - Aberdeen Asset Management and Lazard Asset Management - and another substantial shareholder in Colonial First State, if not others, have concerns about board succession planning. In something of a two-page farewell letter to shareholders last week, outgoing chairman Russell Balding banged on about "significant progress" made to the company's corporate governance practices, its "disciplined approach to improving corporate governance", a recent "corporate governance benchmarking exercise" and its "emphasis on corporate governance". Cabcharge's top custodian seemed particularly proud of its (arguably newfound) approach to corporate governance ahead of the annual general meeting scheduled for November 24. But actions speak louder than words. After all the corporate governance speak, Balding announced that a 20-year veteran of the company's board, Donn McMichael, was no longer intending to retire. And McMichael, one of the old Cabcharge brigade under the late Reginald Kermode, is now up for re-election, even if he does not intend to serve a full three-year term.

Balding endorsed the move saying that after his own retirement, the average tenure of non-executive directors would be only two years and the company needed McMichael's "important industry knowledge and contacts". Other NEDs include ex-PwC partner Richard Millen, former Toll Holdings strategy boss Stephen Stanley and financial services veteran Trudy Vonhoff. While shareholders appreciate the importance of a bit of grey hair and corporate knowledge on the board, it jars against the sort of evolution they want to see happen at Cabcharge, which only 2½ months ago unveiled revenue down 10.2 per cent and EBITDA off 23 per cent for the year to June 30. **AFR**
News Snippet:

- Media M&A – News Corporation will rip $40 million in costs out of its Australian publishing arm in 2016-17, some of which will come from job cuts, as the Rupert Murdoch-controlled company deals with falling advertising revenue and a shift to digital. Advertising revenue at News Corp Australia fell 11 per cent in local currency in the first quarter, which was relatively similar to the same period last year. News Corp chief financial officer Bedi Singh told a quarterly conference call that it planned for $US100 million ($130 million) in cost savings this fiscal year while we continue to push digital initiatives more broadly. It is understood that these costs will come across the local business and will include redundancies. News Corp’s Australian publications include The Australian, The Daily Telegraph and The Herald Sun. News Corp shares finished Tuesday 1.3 per cent higher at $16.11 in local trade. It comes as News Corp has begun offering redundancies at The Wall Street Journal, which was recently demerged from APN News & Media. The merger would likely substantially lessen competition in markets for premium digital advertising, advertising in Sunday newspapers and community newspapers in 10 regions, and would likely increase the subscription and retail prices for Sunday newspaper and introduce a paywall for at least one website, the Competition Commission said. Commerce Commission chairman Mark Berry said 90 per cent of the NZ print media market would be controlled by one outlet under the proposed merger. “Our preliminary view is that competition would not be sufficiently robust to constrain a multi-media organisation, potentially with a single editorial voice, that would be the largest producer of national, regional and local news by some margin in New Zealand,” Dr Berry said. AFR

- Consumer stocks: We maintain our preference to entertainment, media and gambling while we see substantial risk in discretionary retail sector. Media sector rule changes will drive M&A with smaller regional players becoming the target for industry consolidation. Sector mainly stuck in “selective buy” category after recent selloff.
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**Staple stocks:** Food related stocks with overseas exposure will continue to trade at high multiples and worth acquiring in any pullback. All Supermarket stocks are going to struggle to hold margins with the race to the bottom on prices. Sector back in favour as money moves from discretionary retailers to specialty food retailers with global model.

**News Snippet:**

- **Midway Limited** – Bell Potter, Ord Minnett and Morgans have started drumming up interest in wood fibre and pulp products producer Midway Limited, ahead of an initial public offering. The brokers started rattling the tin among fund managers on Tuesday night, seeking to raise $30 million at $2.50 a share at a bookbuild next Wednesday. The IPO was priced at 11.4-times forecast 2017 financial year profit and 7.6-times EBITDA, and implied a 7 per cent dividend yield. If successful, Midway will list with a $187 million market capitalisation on December 8. Midway is a forestry products producer involved in the production and export of high quality wood fibre to producers of pulp, paper and associated products in China and Japan. Its run at the ASX-boards comes after a similar attempt earlier this year. Midway told potential investors it expected $210 million revenue and $28 million EBITDA in the 2017 financial year. Net profit was forecast to be $16.5 million. **AFR**

- **Supermarket Sector** – Australia’s major supermarket chains are once again in the sights of the Australian Competition and Consumer Commission, this time over the way they delist food and grocery manufacturers’ products. They signed up to the code. “Some delist notices did not give suppliers reasonable notice; the worst examples were delistings that appear to have occurred on the same day as the notice was served,” he said. “In others, suppliers were faced with the deletion of multiple products but were given less than a month’s notice to deal with stock levels that may have been maintained by the supplier on a national basis.” Other delist notices did not include any real reasons for delisting and where reasons were provided, they were typically general in nature and lacked any details specific to
Healthcare stocks: The ever increasing older demographic locally and globally will continue to support this sector with governments cutting back their health care spending. Falling currency will be another free kick to the sector. Sector stock in “must have” basket with macro, growth and currency in favour.

News Snippet:

• **Mayne Pharma Group** – Shares in Mayne Pharma Group tanked on Friday morning after Bloomberg revealed a US Department of Justice investigation overnight into two generic medicines (the DoJ has subpoenaed 10 pharmaceutical companies, including Mayne). The company’s value lost 13.8 per cent last week – not unlike its stateside peers – but has since clawed its way back from $1.47 to close Tuesday’s session at $1.63. One of the two generic medicines the antitrust authorities are scrutinising the market for is the antibiotic Doryx, which was only genericised in May this year. In FY16 (11 months of which the drug’s patent remained in force), Doryx represented 40 per cent of Mayne’s earnings. The company, chaired by former Woolworths boss Roger Corbett (and whose publican mate Bruce Mathieson sits on the board and owns a whopping 57.1 million shares; Alex Waislitz’s Thorney is also on the register), was at pains to point out that it “continues to believe these investigations will not have a material impact on its future earnings”. As it’s worded, that’s probably right. There are two types of Doryx – immediate-release and slow-release (why wait?!) – and the investigation is reportedly into the one Mayne doesn’t manufacture. But what about the bigger picture? After the expiry of the Doryx patent, and Mayne’s $US652 million ($887 million) acquisition of 42 generics from Israeli pharma Teva in August, generics drugs will account for 80 per cent of Mayne’s earnings, up from 46 per cent in FY16. And why is the DoJ investigating generics? To ensure manufacturers aren’t creaming the consumer, which can only happen in niche drugs (like Doryx – a 25-pack of which costs $US231 at Duane Read but just $10.69 here at Soul Patts) with limited, friendly competition. Which is precisely Mayne’s strategy.

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**Aussie Afternoon Institutional Market Wrap**

90.81 3.88 0.63 2.02 Buy 17.66 10.07 82.79 -8.30 9.07 9.08 N/A

**VT**

Vitae Holdings Limited 303.33 2.18 0.00 2.12 Buy 23.04 20.96 N/A 12.80 2.25 2.57 Change in substantial holding

**WOW**

Woolworths Limited 29692.16 22.73 -1.39 23.44 Underperform 18.62 18.63 -36.51 -0.04 3.66 3.62 N/A

**MGC**

Mg Unit Trust 222.13 1.04 -4.15 1.23 Hold 14.30 16.77 N/A -14.78 7.00 6.25 N/A

**WBA**

Webster Ltd 422.46 1.17 -3.70 1.35 Buy 46.80 19.83 -56.1 4 136.00 0.47 1.71 N/A

**BWX**

BWX Limited 378.41 3.91 -4.63 5.31 Hold 25.85 20.58 N/A 2 5.62 1.20 2.17 N/A

**MVF**

Monash Ivf Group Ltd 487.27 2.04 -1.45 2.34 Hold 17.47 15.34 18.22 13.87 3.92 4.56 N/A

**COH**

Cochlear Limited 7185.66 122.80 -1.86 125.95 Hold 36.8 5 31.67 21.64 16.36 1.88 2.18 Change of Directors Interest Notice - Chris Smith

**MTS**

Metcash Limited 1819.57 1.84 -1.61 2.10 Hold 9.85 10.03 -10.87 -1.76 0.53 2.02 N/A

**WES**

Wesfarmers Limited 46434.78 40.46 -1.65 42.86 Hold 19.79 16.87 -4.52 17.30 4.73 5.04 N/A

**GNC**

GrainCorp Limited 1965.87 8.43 -1.86 8.65 Hold 39.95 18.78 1.16 112.80 1.33 2.63 N/A

**ANN**

Ansell Limited 3286.60 21.47 -3.68 23.12 Hold 16.29 15.43 -19.88 5.56 2.62 2.83 N/A

**TWE**

Treasury Wine Estate 7757.80 10.12 -3.71 10.83 Hold 32.45 26.22 55.19 23.76 1.92 2.51 N/A

**A2M**

The A2 Milk Company 1460.37 1.94 -5.15 2.03 Buy 46.41 2 8.28 N/A 64.14 0.08 0.88 N/A

**MYX**

Mayne Pharma Ltd 2439.41 1.55 -5.50 1.90 Hold 30.06 18.61 163.29 61.47 0.00 0.00 N/A

**NAN**

Nanosonics Limited 982.52 3.15 -4.55 3.40 Hold -4200.0 0 64.29 96.54 6633.33 0.00 0.00 N/A

**REG**

Regis Healthcare Ltd 1192.42 3.93 -1.01 4.62 Hold 22.8 5 19.36 0.58 18.02 4.37 5.06 N/A

**TGR**

Tassal Group Limited 563.56 3.74 -0.27 4.58 Buy 13.42 1 3.41 -1.55 0.14 4.09 4.28 N/A

**EHE**

Estia Health Ltd 550.05 2.80 -1.41 3.20 Underperform 9.29 12.12 27.74 -23.33 10.69 7.71 N/A

**VRT**

Virtus Health Ltd 532.90 6.41 -3.32 8.43 Hold 15.36 14.44 3.93 6.40 4.43 4.87 Results of Annual General Meeting

**CCL**

Coca-Cola Amatil 7231.20 9.35 -1.27 9.47 Hold 17.28 16.91 7.50 2.22 4.62 4.88 N/A

**RIC**

Ridley Corporation 383.23 1.21 -2.81 1.57 Buy 15.19 13.09 14.63 13.72 3.06 3.64 Change in substantial holding

**FSF**

Fonterra Share Fund 690.71 5.68 0.53 6.43 Buy 11.66 10.97 82.79 -8.30 9.07 9.08 N/A

**CGC**

Costa Group Holdings 922.14 2.75 -4.84 3.24 Buy 18.90 1 6.47 N/A 14.78 3.27 3.93 N/A

**AHY**

Asaleo Care Limited 835.13 1.43 -4.35 1.69 Buy 12.43 11.82 -9.32 4.35 6.57 6.43 Daily share buy-back notice - Appendix 3E

**BKR**

BKR Limited 374.81 2.91 -4.63 3.51 Hold 25.85 20.96 N/A 25.62 1.20 2.17 N/A

**COC**

Caste Creek Holdings 1027.48 3.75 -1.54 4.31 Hold 18.50 14.67 N/A 14.78 2.57 5.93 N/A

**ANC**

Australian Agricultural Co 977.74 1.66 -5.14 2.40 Buy 18.97 32.55 N/A -41.71 0.00 0.00 N/A

**ASM**

The AZ Milk Company 3440.37 1.34 -1.86 2.93 Buy 64.41 28.28 N/A 64.53 0.08 0.88 N/A

**SHV**

Select Harvest 684.64 6.05 -2.17 6.93 Hold 11.94 14.81 -48.68 6.99 5.85 4.48 N/A

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**Bank stocks**: Regulatory and macro worries hang over the sector. Regional banks should see more support with financial sector regulatory and macro worries hang over the sector. Regional banks should see more support with financial sector

Stocks in play: We maintain our preference in ANZ and NAB in the big four and smaller banks ABA and MYS.
**News Snippet:**

- **Commonwealth Bank** – Australia’s largest superannuation fund says it will vote against Commonwealth Bank’s executive pay scheme, in an action that may increase the risk of a first-ever strike delivered to a bank, because the so-called ‘targeted’ non-financial bonuses used to set bonuses for “clarity and transparency”. Australian Super will line up alongside industry fund peer Unisuper, as well as fund managers taking advice from influential proxy firms ISS and Ownership Matters, to vote against CBA’s remuneration report at the bank’s annual general meeting in Perth on Wednesday. The use of targets linked to “people and culture” to calculate bonuses were well intentioned but not well designed, AustralianSuper’s manager of investment governance Andrew Gray told The Australian Financial Review.

  “These are important issues and do need to be elevated in remuneration structures but in this case there is no clarity around how it will be measured, and the hurdles that have to be cleared,” said Mr Gray. A backlash against the linking of pay to “soft targets” around workplace diversity and safety has embroiled other large companies this season, including AGL Energy, which was hit with its first strike in September. However if CBA does receive an embarrassing “first strike” under laws that make directors more accountable for executive pay it is likely that it will also be due to concerns that executive pay has likely not benefited from due recent culture scandals. AFR

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**Diversified Financials / Insurance stocks:** Asset managers offer the best way to get exposure to market locally and globally while unique financial companies like EQT, FXL and IMM are worth looking at when value emerges. Global players have another kick free with government trading super rise for mining tax repeal. Sector is in “core holding” basket while market selloff will see pullback in this sector and offer a good long term buying opportunity. MQG, MFG, PTM, CYB, HGG and BTT are under pressure with Brexit worry....but central bank action to reduce risk after pullback.

**News Snippet:**

- **Findex** – Financial services house Findex has moved into profit after bedding down a string of acquisitions, including the $200 million purchase of the Crowe Horwath accountancy group. The firm posted a $13.2 million profit for 2015-16, up from a $18.8 million loss in the previous year, according to its consolidated statement of profit and loss. Total revenue was up 65.5 per cent to $450.3 million with business service revenue almost doubling to $214.5 million. Financial planning revenue was the slowest-growing segment, up 17 per cent to $116.5 million in 2015-16. The string of acquisitions has also boosted adviser and staff expenses, which were up 72 per cent to $294.5 million in the year. “The profit figures in the table [above] include a number of non-operating and non-cash expenses associated with private equity financing and acquisitions,” said Matthew Games, Findex’s chief financial officer. “Operating Earnings Before Interest Taxes Depreciation and Amortisation grew 35 per cent to $49.9 million and Operating Net Profit After Tax grew 65 per cent to $32.9 million.” Mr Games said higher revenue came with higher staff expenses “in order to service the larger client base producing that revenue”. AFR

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**Property stocks:** We see house prices flattening with most of the positive optimism already priced in the housing stocks. The construction and commercial property stocks still offer improving outlook on new projects, M&A and consolidation. Rising bond yield will put pressure on yield stocks. Sector stuck in “high risk” basket due to housing bubble worries. AFR
null
Utility stocks: We see risks to the sector with falling commodity prices, rising renewables with battery technology and potential interest rate rises in US. Sector now back in favour due to very low risk of interest rate rise...worth looking at quality growing yield above 6%.

Stocks in play: Valuations in the stocks are full despite the low growth as the market is willing to pay for safety of yield. Rising bond yields will put pressure on valuations.

News Snippet:

Endeavour Energy – Foreign Investment Review Board chairman Brian Wilson is back in the hot seat. While NSW wants to fire the starter’s gun for the third and final poles and wires auction - a $4 billion-odd stake in Endeavour Energy - it can’t start the auction without clearly defined foreign investment rules. NSW’s camp, including Deutsche Bank and UBS, can talk to potential buyers all they want, but after Ausgrid bidders say they will not be diving into any process without first getting the ground rules from FIRB. Which is where Wilson comes in. Street Talk understands bidders have been told to wait by the phone, with FIRB scheduled to provide an update on its thinking within the coming week. Bidders are looking for firm guidance; unequivocal and clearly laid. Whether they get the surety they are after is another matter. The way FIRB works, it needs all the information on the bidders themselves before it can give a true ruling as to whether it would block an acquisition. Bankers and potential buyers have asked the state whether the FIRB vetting process could be run upfront - prior to the auction. It would be a radical move, however could ensure plenty of people don’t waste the next six months working on a bid that never had a chance. State Grid Corporation of China and Cheung Kong Infrastructure learnt that the hard way. The pair - and all other parties interested in Ausgrid this time last year - received guidance from FIRB that they could bid for the whole 50.4 per cent stake in Ausgrid that was up for grabs. AFR

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**Code** | **Company Name** | **Market Cap ($m)** | **Price ($)** | **Daily Price Change (%)** | **Consensus Target Price ($)** | **Consensus Rating** | **2016 PE** | **2017 PE** | **2016 EPS GROWTH** | **2017 EPS GROWTH** | **2016 Div Yield** | **2017 Div Yield** | **Newsflash**
--- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | ---
TLS | Telstra Corporation | 58523.09 | 4.84 | -1.22 | 5.29 | Hold | 13.91 | 14.07 | 1.75 | 1.17 | 6.52 | 6.55 | N/A

DUE | Duet Group | 5717.66 | 2.33 | -0.85 | 2.49 | Hold | 28.17 | 23.74 | 66.72 | 58.46 | 7.58 | 7.90 | N/A

APA | APA Group | 4588.74 | 7.86 | -1.13 | 9.58 | Hold | 41.04 | 36.30 | -20.26 | 28.28 | 5.13 | 5.61 | N/A

TPM | Tpg Telecom Limited | 6151.43 | 7.07 | -2.48 | 10.28 | Buy | 17.06 | 15.44 | 13.93 | 15.52 | 2.20 | 2.29 | N/A

VDC | Vocus Communications Ltd | 3546.64 | 5.44 | -0.30 | 7.91 | Hold | 18.20 | 14.17 | 66.69 | 28.45 | 6.00 | 5.71 | N/A

SDA | Speedcast Int Ltd | 462.08 | 2.21 | -1.24 | 4.68 | Buy | 25.44 | 13.60 | 1.32 | 49.61 | 2.73 | 2.85 | Despatch of Retail Offer Booklet to eligible shareholders

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AFR
Macro Charts

Market (S&P 200) – Central banks and US election worries are subsiding...market optimism dived as Republican party looks to hold all three levels of government....there policy uncertainties will take at least few more days to unwind!!

Volatility Index (XVI) – As expected profit taking on macro risk has popped the volatility index from the lows...now risk abating from high levels.
Currency (AUDUSD) – Global trade worries will continue to pullback AUD faster than expected.

GOLD (Spot Gold in AUD) – Global market uncertainty drives gold higher while weaker AUD will be another kicker!!!
**Aussie Afternoon Institutional Market Wrap**

09 November 2016

Mathan Somasundaram – Baillieu Holst Quant Strategy

mathan@baillieuholst.com.au – 612 9250 8947

Bond Yield (10 year Bond) – US election result removes US Fed rate hike outlook for 2016….yields will fall on rising risk outlook.

**WTI Oil (West Texas Intermediate Oil) –** Lack of OPEC clarity and weaker global growth/trade outlook is likely to weigh on oil expectations.
Baillieu Holst Research

Monthly Top Picks

Last Published – 03rd November 2016

Changes this month

EPD replaced SHV

Current Top Picks

Analyst: Nicolas Burgess > Top Picks: QMS, SDF
Analyst: Nick Caley > Top Picks: MTR, SLK
Analyst: Josh Kannourakis > Top Picks: EPD, OTC
Analyst: Luke Macnab > Top Picks: ACX, VOC
Analyst: Warren Edney > Top Picks: SLR, HRR

Top Picks Performance
Quant Strategy Model Portfolio

October update – Macro volatility ahead

Last Published – 26th October 2016

Energy – large (WPL), small (KAR)

Metals and Mining – large (BHP, RIO)

Gold – large (NCM), mid (NST), small (EVN)

Capital Goods – micro (GNG, ANG)

Transport – large (SYD, TCL)

Consumer Services – small (AGI, IPH, MTR)

Media – small (VRL), micro (EVT, ICQ)

Health Care – large (CSL, RHC), mid (RMD), micro (MVP)

Banks – large (ANZ, NAB)

Diversified Financials – small (IMF)

Information Technology – small (ALU, HSN, IFM)

Telecommunications – mid (TPM, VOC), micro (SDA)

Model Portfolio Performance

![Chart showing performance of benchmark index, portfolio market cap weighted index, and portfolio equal weighted index over time.](chart.png)
SHIELD – Sustainable High Yield

Banks back in fashion

Last Update – 08th November 2016

Note: This report is a Quantitative Strategy product. The report uses consensus rating and forecast data from Thomson/IBES to get coverage of the whole market and avoid a house skew, and as such sometimes the highlighted themes, sectors and stocks will not match our analysts view.

Macro Outlook: Global market worries are all about US presidential election in the short term while Italian referendum and US Fed rates cycle are the next road blocks ahead. US election cycle remains in the balance while the leading indicators are pointing to a market preferred option. There is a high probability of the Presidential race dragging on past the deadline with potential challenges in key states. We maintain our view that US Fed has been preparing the markets for a move in December while any major macro risk may derail that outcome. The recent economic data points out of US and China continues to favour a rate hike while the Presidential election remains the wild card. The potential end of easing cycle locally and the rate hike in US will support the yield outlook in the Australian banking sector while the low credit growth and regulatory capital requirements remains the overhang. Bank update season was relatively stable while two out of the four big banks will go ex-dividend over the next week.

Cheap Picks: PRG and VLW are the low growth cheap yield picks from the SHIELD screen that have average earnings and cash flow per share growth of below 10%; an average of price-earnings and price-cash flow below 10x; a dividend yield above 5% and; a BUY rating.

SHIELD Top 20 picks are: large cap – CBA, WBC, ANZ and NAB; mid cap – MFG; small cap – IMF, DNA, MLD, OFX, PRG, VLW, PTM, VTG, NEC, AYS, TRS and RRL; and micro cap – GNG, DTL and NCK.

Model Portfolio Performance
GARY – Growth At Reasonable Yield

Small Cap Industrials continue to dominate

Last Update – 14\textsuperscript{th} October 2016

Note: This report is a Quantitative Strategy product. The report uses consensus rating and forecast data from Thomson/IBES to get coverage of the whole market and avoid a house skew, and as such sometimes the highlighted themes, sectors and stocks will not match our analysts view.

Macro Outlook: Global markets are moving past US Fed and US election worries as the US reporting season starts to test stretched multiples. We continue to see global growth remaining weak, while an easing bias stance from most central banks will support equity markets. We maintain the view that the US Fed will only move in December; a move that continues to remain under threat from economic weakness from election and global uncertainties (such as the Italian referendum). A recent bond squeeze has delivered a bounce in yields, whilst a medium to long term outlook suggests that bond yields will settle in the slightly higher range from early 2016. The yield trade will continue to see support in Australia as interest rates remain low for longer. Small cap industrial stocks continue to dominate the GARY screen.

The GARY (Growth At Reasonable Yield) screen allows us to pick stocks with strong yield, solid growth and cheap valuation multiples compared to the overall historical market trend. Resources and related service stocks carry higher risk due to global growth worries, while property related stocks carry the bubble risk.

GARY Industrial picks are: mid-cap (SKI), small-cap (CWP, HFA, WPP, VLW, FXL, FSF, AJA and GDI).

GARY Resource and related picks are: small-cap (PRG).

Model Portfolio Performance

![Graph showing model portfolio performance](image-url)
New US leadership will have to balance weak global growth and protectionism!!!

Global trade runs into tariff worries!!!
Global Market Round Up – Local stocks are poised to rise as Wall Street rallied on election day in the US. ASX futures are up 22 points or 0.4 per cent; the Australian dollar has advanced 0.2 per cent to US77.42¢. Victory for Hillary Clinton would be greeted more positively than a win by Donald Trump, according to most market watchers. A Clinton presidency is seen as leading to a steady transition from Barack Obama. Uncertainty about how Trump would govern is seen as at least a short-term negative for markets. Part of the continuing good news for the ASX is that commodities markets remain strong. Spot metallurgical coal topped $US300 a tonne on Tuesday for the first time since flooding in Australia curbed output from the world's biggest seaborne exporter five years ago. Copper rallied overnight. Gold and oil were little changed with election jitters keeping investors from making big bets. Shares in BHP Billiton and Rio Tinto were high in early afternoon trade in New York. The big data point today is out of China. "We expect consumer price inflation to have edged up in October to 2.1 per cent, mainly driven by a further increase in food price inflation," according to Capital Economics. "Meanwhile, producer price inflation is likely to have picked up further this month on the back of easing commodity price deflation." AFR

US – US stocks are higher in early afternoon trading. The CBOE Volatility index reversed course to drop 4.5 per cent, after having notched its biggest one-day drop since late June on Monday. "There is a general feeling that with the election ending, it reduces uncertainty for investors," said Rick Meckler president of investment firm LibertyView Capital Management. "No matter who is elected, it will end a tremendous divide and return focus to earnings and all the fundamentals that have been pushed to the sidelines in recent weeks." All the 11 major S&P 500 sectors were higher, led by gains in the utilities and telecom sectors. Irish Finance Minister Michael Noonan will on Wednesday take his fight over Apple's record €13 billion tax bill to a European Union court, potentially triggering years of litigation. AFR

Europe – The cost of bearish options on the Euro Stoxx 50 Index has jumped more than 50 per cent relative to bullish contracts in the past two weeks, data compiled by Bloomberg show. The bets increased as the runup to the election roiled equity markets, sending the broader Stoxx Europe 600 Index to its longest streak with no gains since 1994. The benchmark measure swung between gains and losses at least seven times on Tuesday, rising 0.3 per cent at 4.30pm in London. Miners and banks led the advance. "Light volumes show many asset managers are unwilling to commit," said Michael Ingram, a market strategist at BGC Partners in London. "There is still a nagging worry that they will, once again, be drawn in on misleading polls and slammed face-first into a Trump slump." Trading of bearish Euro Stoxx 50 options has surged this month, with more than 900,000 puts changing hands daily on average through Monday, compared with about 524,000 calls. The put-to-call ratio is heading for its highest since May 2016, data compiled by Bloomberg show. Marks & Spencer Group declined 5.2 per cent after the retailer said it plans to close all its stores in 10 countries and shutter 30 outlets at home. AFR

Asia – The benchmark Topix index climbed 0.1 per cent at the close, though five shares retreated for every four that advanced. Volume was 5.8 per cent below the 30-day average. The measure jumped the most in almost seven weeks on Monday. The Hang Seng Index closed 0.5 per cent higher. Galaxy Entertainment Group and Sands China were among the top gainers, while Hong Kong Exchanges & Clearing posted the biggest two-day increase in a month amid optimism the start of a stock link with Shenzhen is imminent. China's exports fell 7.3 per cent in October, compared with the median estimate for a 6 per cent decline. The Shanghai Composite Index rose 0.5 per cent to a 10-month high. The gauge's 14-day relative strength index rose to 66, near the level of 70 that indicates to some traders that a reversal is due. The first sale of land in Singapore's Marina Bay in nine years generated healthy bidding from developers, with a plot in the sought-after financial district attracting a top bid of $A2.6 billion. AFR

Currencies – The US dollar rose against the safe-haven Japanese yen and Swiss franc on Tuesday morning in New York, but was overall little moved. Inflation stuck below the goal is "one of the larger risks" facing the US central bank, Chicago Fed president Charles Evans said at the Council on Foreign Relations. He added it was critical to at least hit the target to convince the public that 2 per cent is not a ceiling. Federal funds futures were down 0.5 basis point to 1.0 basis point from Monday. They implied traders saw about a 76 per cent chance the Fed would raise rates next month, compared with 72 per cent late on Monday, according to CME Group's FedWatch program. AFR

Commodities – Hard coking coal rose to $US307.20 a tonne on Tuesday, extending a surge that has seen the price more almost quadruple since the start of June. Miners and Japanese steelmakers agreed to a three-month supply contract at a record $US330 for the second quarter of 2011 after heavy rain and flooding crimped production in Queensland. Chinese demand has driven the price surge this year. Oil eased overnight. Brent January crude oil futures were down 37 cents at $US45.78 a barrel by 1437 GMT, off a session peak of $US46.89. U.S. West Texas Intermediate crude futures fell 34 cents to $US44.55. The Organisation of the Petroleum Exporting Countries forecast demand for its oil will rise in the next three years, suggesting its 2014 decision to let prices fall to curb costlier rival supplies is delivering higher market share. Copper prices hit one-year highs amid expectations of stronger demand in China. Benchmark copper on the London Metal Exchange ended up 2.7 per cent at $US235.50 a tonne. Earlier it hit $US248.50, its highest since October 23, 2015, as funds jumped on the uprend after a break of key resistance around $US2150. Copper has gained more than 10 per cent since October 21. Aluminium closed up 0.2 per cent at $US1731, zinc gained 0.4 per cent to $US2478, lead rose 1.8 per cent to $US2125 and tin fell 1.4 per cent to $US21,545. Tin earlier matched Monday's $US22,000 a tonne, its highest
since August 2014. It has been boosted by worries about shortages and low stocks in LME-approved warehouses. Nickel rose 1.2 per cent to $US11,260 a tonne from an earlier $US11,370, its highest since July last year, as funds piled in on forecasts of deficits this year and next. Falling consumer demand and a halving of central bank purchases resulted in a 10 per cent drop in gold buying in the third quarter, data from the World Gold Council showed. Added to a 4 per cent rise in supply, that pushed the overall quarterly gold market surplus to 166.3 tonnes, its highest level since the beginning of 2009, the WGC said in its latest demand trends report. ArcelorMittal tumbled 4.3 per cent after the world's biggest steelmaker warned that a surge in coal prices would hurt earnings in the last three months of the year. AFR

MACRO PERSPECTIVE

- **US Democrat Election Cycle** – Democrat Hillary Clinton appeared to be on the verge of narrowly holding out Republican rival Donald Trump for an historic presidential election win, as both candidates barnstormed the country campaigning past midnight to issue frantic last-minute pleas to Americans before final voting. Barring a Brexit-like shock, most indicators pointed to a slim victory for Mrs Clinton in the tumultuous election, an expectation that lifted Wall Street on the eve of Tuesday's poll. Such a win would make history as the the US elected its first female president. An 87 per cent increase in early voting by Hispanics since 2012 in the largest swing state of Florida, as well as strong Latino turnout in the battleground of Nevada, suggested Mrs Clinton had mobilised the minority group against Mr Trump's anti-immigrant nationalism. Of consequence for Wall Street, the battle for control of the US Congress was set to go down to the wire.

Asian markets, however, were in a more subdued mood than on Monday, when they rallied on the back of an all-clear for Mrs Clinton from the FBI after a second probe into government business emails exchanged on a controversial private server. On Tuesday, the benchmark S&P/ASX 200 Index closed 7 points, or 0.1 per cent higher, to 5297.8 points, while the broader All Ordinaries ended 0.2 per cent higher at 5341.1. Elsewhere around the region, shares were generally higher as investors digested this week's developments on Mrs Clinton's emails. MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.6 per cent, although Japan's Nikkei closed down slightly. AFR

- **US Republican Election Cycle** – Republican presidential nominee Donald Trump rallied thousands of supporters on Tuesday (AEDT) at the North Carolina State Fairgrounds, making a final pitch to battleground North Carolina the day before the election. Mr Trump repeated his attacks on Democrat Hillary Clinton's handling of emails as secretary of state. "Hillary Clinton is the most corrupt person ever to seek the office of president of the United States," Mr Trump told the crowd. "She's being protected by a totally rigged system." Mr Trump voiced skepticism about FBI Director James Comey's announcement on Monday that investigators who had finished reviewing new emails related to Clinton's use of a private email server. Comey said Clinton will not be charged. "They went through 650,000 emails in eight days - yeah right," Mr Trump said. "So sad what's going on." Mr Trump also ridiculed Mrs Clinton's use of famous musicians such as Beyonce and Jay Z to draw crowds to her rallies. "I get bigger crowds than they do," he said. "I don't have a guitar, and I don't have a piano. All we have is great concepts for our country." Mr Trump said that if he used what he views as inappropriate language in Beyonce and Jay Z's music, he would face execution though "reinstitution of the electric chair". Mrs Clinton was also scheduled to be in Raleigh late to close her presidential campaign with a midnight rally down the street at NC State University's Reynolds Coliseum. She was to be joined by musicians Lady Gaga and Jon Bon Jovi, and former President Bill Clinton and their daughter Chelsea. The two Raleigh rallies highlight North Carolina's role as a crucial battleground state, one that's too close to call. A New York Times/Siena poll conducted over the weekend found each candidate with 44 per cent support. The latest Quinnipiac poll gave Clinton a 2 percentage point lead. AFR

- **China and Foreign Reserves** – They have often been described as China's war chest. But the country's foreign exchange reserves, which hit a peak of $US4 trillion in June 2014, have taken a big hit this year and are not quite the same economic buffer they were used to be. Last month they dropped by more than expected to $US3.12 trillion, the lowest level since March 2011. The $US45.7 billion decline from September's level was also the biggest monthly drop since the start of the year, when fears of capital flight dominated the headlines. In recent months, the economy appears to have stabilised and policymakers have adopted a more confident approach, allowing the yuan to weaken as the US dollar climbs on expectations of higher interest rates. However, the latest figures suggest capital outflows are edging up again as Chinese investors, concerned about the weakening trend in the yuan, are looking to protect the value of their assets. The yuan has weakened by 1.6 per cent against the US dollar since the end of September. Still, the drop in foreign exchange reserves may not be as alarming as it appears, according to Capital Economics China economist Julian Evans-Pritchard. He believes it was driven more by "valuation effects". "Any reasonable estimate of valuation effects suggest that dollar strength played a major role in the latest drop in the value of China's reserves," he said in a note after the latest figures were released by the central bank late on Monday. AFR

- **Australia Super Reform** – Labor will take its extra cuts to superannuation tax concessions to the next federal election after Treasurer Scott Morrison flatly rejected demands it adopt them as part of its package of super reforms to be legislated this month. At the same time, the ALP said it would join others in the Senate to try and further water down the backpackers tax from a proposed rate of 19 per cent to 10.5 per cent. This prompted Mr Morrison to accuse Labor of "forcing Australians to pay more tax so they can give foreign workers a tax cut". Mr Morrison said a 10.5 per cent backpacker tax would cost the budget $560 million. He said the government would reject the changes if made by the Senate and the rate would default to the current 32.5 per cent to be levied on every dollar earned by a seasonal labourer. Shadow treasurer Chris Bowen said Labor would vote for the government's super package, which is worth a net $3 billion saving to the budget, and would then attempt to voters in two years more cuts worth $1.4 billion over four years and $19 billion over a decade. Labor will call for a quick Senate inquiry but will not attempt to amend the Coalition's super package, ensuring it will sail through. AFR

- **Australia Social Reform** – A risky decision to look at diluting racial discrimination protections, trepidation about same-sex marriage policy for the next election and ongoing poor polling are stoking already high anxiety levels inside the Turnbull government. After bending to pressure from the conservative wing of his party, Prime Minister Malcolm Turnbull gave the
go-ahead on Tuesday for a parliamentary inquiry into section 18C of the Racial Discrimination Act. But he warned his divided troops during the weekly party room meeting that the move would expose the Coalition to allegations of fanning race hate and he stressed the need to keep the debate civil. At the same time, Coalition MPs began to turn their minds to a potentially equally divisive internal debate on same-sex marriage policy after the Senate defeated legislation on Monday night to establish a plebiscite for February 11. Senior ministers, including Treasurer Scott Morrison and Barnaby Joyce, said the death of the plebiscite should be the end of the matter. Multiple Coalition MPs on both sides of the issue told The Australian Financial Review that the party was united insofar as there was no appetite to revisit the policy change before the next election, due in about two years, be it by a direct vote in Parliament or other means. And despite claims by Labor and the Greens that an ongoing pressure campaign could see Liberals crossing the floor in the Lower House to vote for a private members bill, none in the Liberal Party said this was likely, even hardened supporters of same-sex marriage. “It’s quite the reverse,” said one Liberal, who said there is resentment towards Labor for scuttling the plebiscite. But people on both sides said the party would have to debate before the next election what policy to put to the people and it was likely to be a damaging fight. Conservatives said it was unlikely they would drop their support for a plebiscite ahead of the next election while moderates suggested they would argue to move from a plebiscite to a parliamentary vote.

**Australia Media Reform** – The Coalition’s media law changes appear to be even further delayed with cross-benchers mulling whether to back Labor and the Greens in blocking a key part of the package, leaving Communications Minister Mitch Fifield back at the negotiation table. The Coalition had planned to put new laws to Parliament in either August or September to remove the “reach rule” – which prevents networks from broadcasting to more than 75 per cent of the population – and the “two out of three rule” – which prevents media companies from owning a TV network, radio station and a newspaper in the same market. Labor formally decided on Tuesday that they would only pass the legislation if it removed the proposed abolition of the two out of three rule. Senator Fifield hit out at Labor, saying they were stuck in the past, as the internet made the two out of three rule irrelevant. “A few facts that might have escaped them: number one, Kylie Minogue does not live on Ramsey Street, and, number two, the internet does exist. It’s very important our media laws reflect the second of these facts,” he said. Labor’s Shadow Minister for Communications Michelle Rowland said the current iteration of the laws threaten media diversity. “Labor opposes removing the two out of three rule because it would achieve very little at potentially great cost – further media consolidation and a reduction in the diversity of voices across the media landscape. “Labor believes ... the pragmatic course of action at this time is to repeal the 75 per cent reach rule, ensuring local content is bolstered following a trigger event, and provide immediate licence fee relief to the commercial broadcasters,” Ms Rowland said. With Labor and the Greens opposed, the government will need to convince eight out of the 10 crossbenchers to get the full package through. When contacted on Tuesday, many declined to say which way they would go.

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