QUARTERLY NEWSLETTER – April 2017

Major Indices

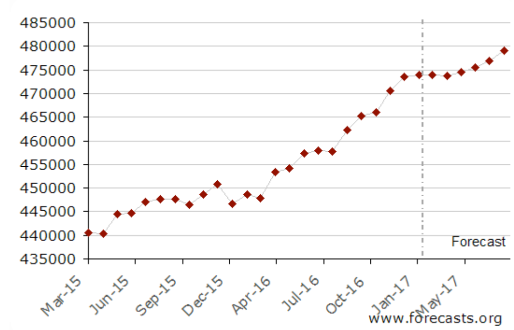
	Currency (AUD)	Interest Rate (%)	Share Index	*PE ratio (historical earnings)	Min daily wage (USD)	GDP Forecast (2017) IMF	Population (million)	Gov. Debt as a % GDP (as of 2016)
Australia	1.00	1.50	All Ords – 5,903	17.4 (All Ords)	136	2.7	24.4	47
USA (Dollar)	0.76	1.00	S&P 500– 2,262	21.1	58	2.3	325	106
Japan (Yen)	85	-0.1	Nikkei 225 – 18,909	15.9	85	0.8	127 (stagnant)	248
China (Yuan)	5.26	4.35	CSI 300 -3,456 Hang Seng 24,111	China-12.3 Hong Kong- 13.9	9.60	6.5	1,382	45
India (Rupee)	49	6.25	BSE 200– 3,991	21.5	3.40	7.2	1,314	67
Europe (Euro)	0.72	0.00	DJ Stoxx 50 3,500	19.9	56	1.5 (Germany)	739 (stagnant)	71 (Germany)
UK (pound)	0.61	0.25	FTSE 100 – 7,322	26.3	80	1.5	65 (stagnant)	89
Global	N/A			20.6		3.4	7,490	

*PE ratios (based on historical earnings),
10 Yr Bond Rate – 2.40% US 30 Yr Bond Rate – 3.02% Source: Bloomberg NB: Fastest growing population is by far Africa.

Commodities

Oil –Nymex (WTI) (USD/barrel)	50	**Iron Ore** ($/tonne) spot price	89
Natural Gas ($per million mbtu)	3.23	**Copper** (USD/pound)	2.65
Lithium(contract) ($/tonne)	12-15,000	**Nickel** (USD/pound)	4.51
Uranium (USD/pound)	23	**Zinc** (USD/pound)	1.25
Gold (USD/ounce)	1,250	**Aluminum** (USD/pound)	0.88
Wheat (cents/bushel)	431	**Corn** (cents/bushel)	367
Baltic Dry Index(BDI) +	1,086 (no change)	**Dow Jones Transport Index(DJT)**	9,116 (rising slightly)
US retail sales forecasts (million USD per month)	April(f) 474	May(f) 475	June(f) 476
Chinese PMI manufacturing	Jan (Caixin) 51.0	Feb (Caixin) 51.7	Mar (Caixin) 51.2

U.S. Retail Sales



Commentary – Past 3 months

The past 3 months for share markets was marked by a continuation of the Trump rally. Almost all major global stock markets rose over the quarter, with only Japan falling.
Australian shares rose, helped by stronger commodity prices. Asia was the best performer rising 12.56% for the quarter. Australian commercial property had a strong quarter continuing to rebound.
Global share market Prices to Earnings (PE) ratios are definitely stretched now with the PE for the Global 100 at 20.6. The US PE is now at 21.1 and looking expensive relative to most other countries, especially as rates are rising. The talk of a US corporate tax cut is helping lift valuations. Asia is on a PE of 12.96 and is still looking good value, and China with a PE of 12.3 is still priced well, but probably only fair value considering China's debt issues. Hong Kong still looks attractive with PEs of 13.9. India is at last looking reasonable on a PE of 21.5, given their 7.2% 2017 forecast growth rate. Global property PE is currently 15.91.
Global GDP is forecast by the IMF for 2017 at 3.4%, and 3.6% in 2018. The IMF forecast a slight pickup in global GDP from 2016 GDP of around 3.1%.
USA economy is doing ok right now even if it is only growing at just 2.3%pa. The IMF forecasts this to improve to 2.5% in 2018. President Trump has guided for 3-4% GDP in his term.
Europe is still struggling along with anemic growth, Germany at just 1.5%, also forecast for 1.5% in 2018.
China is doing better than expected thanks to a pickup in the property sector. The IMF has upgraded 2017 GDP to 6.5%, and has 2018 GDP forecast to be 6%. Still this is a solid result. China is spending big on infrastructure, and building the Silk Road railway and highway from China to Europe under their "One belt, One road" master plan.
Australia's economy has picked up a bit since the surprise 0.5 % GDP fall in the 2016 September quarter, thanks to a strong rebound in the resource sector and a strong property sector.
India is still doing very well at 7.2% growth despite the Government's crackdown on the cash economy. The IMF forecasts 2018 growth to increase to 7.7%.
Emerging Market and the Frontier countries have mostly made a great recovery in the past 9 months on the back of rising commodity prices, but still remain vulnerable if oil and commodity prices were to fall back, or with possible Trump protectionist policies.
Interest Rates remained the same in most of the developed world over the past quarter. The exception was the US raising rates by 0.25% to reach 1.00%.
US employment rose by 0.1% to 4.7%, and **Australia** rose by 0.2% to 5.9% unemployed. Both countries have high underemployment rates, suggesting their jobs markets are not as strong as the statistics would suggest.
US long term bonds rates were little changed after a big increase in the previous quarter. Janet Yellen is forecasting 2 more small interest rate increases in 2017.
Inflation has still been mild in most countries and currently not a concern.
Currencies over the quarter were very stable with very little change. The Aussie dollar strengthened slightly against most currencies helped by strong iron ore prices.
Population comment – It is interesting to note that both China and India's population is growing at around 10m per quarter, or 40m pa. Asia is home to 60% of the World's population.

Commodities
Oil fell back slightly this past quarter from USD 54 to USD 50.
Natural Gas also fell back slightly this past quarter from USD 3.77 to USD 3.23, following oil's lead.
Lithium Carbonate China spot prices have stabilized between USD 15-20,000 a tonne, or around12-15,000 a tonne for large contract buyers.
Copper rose again this quarter from USD2.50 to 2.65 per pound helped by some global mine closures in Chile and Indonesia. Zinc and Aluminium also rose, whilst Nickel was about the same.
Iron Ore prices rose again from $75 a tonne to $89 a tonne, helping the Aussie dollar rise.
Uranium finally rose from USD 20 to USD 23 per pound.
Gold rose in tandem with equity markets which is quite unusual to reach $1,250 per ounce.
Soft commodities (wheat and corn) both rose slightly.

Australian Resources price earnings ratio is still cheap at 12.7, despite the miners doing quite well the past year. This is due to rising commodity prices which dramatically increased earnings.

Commentary – Forecast next 6 months

Three of the four leading indicators are now positive after 4 being positive last quarter. Of note China has definitely improved, and the US looks strong.

Dow Jones Transport Index (DJT) is another leading indicator. This index tells us how the US transport companies such as shipping, rail and air are doing. It is a good early indicator if the USA economy is slowing. In 2007, the DJT peaked in July. This was about 6 months before the GFC began. The DJT increased again last quarter from 9,043 to 9,116. A positive sign for the US.

US Retail sales are forecasted to rise. A positive sign for the US.

The Baltic Shipping Index (BDI) – (the cost to ship raw materials such as coal & iron ore) was virtually unchanged from last quarter (from 1,090 to 1,086), after a strong past two quarters. A good sign that the China and resources sector recovery should at least hold steady. A neutral sign.

The HSBC Caixin Chinese Manufacturing PMI index –It has remain mildly positive over the quarter with March reading 51.2 showing China's manufacturing sector remains slightly positive. The PMI Services Index has remained strong. Overall, a positive sign for China.

A summary of the above leading indicators right now is to expect "China to do ok, and the US to do well". The commodities rally may stall for now.

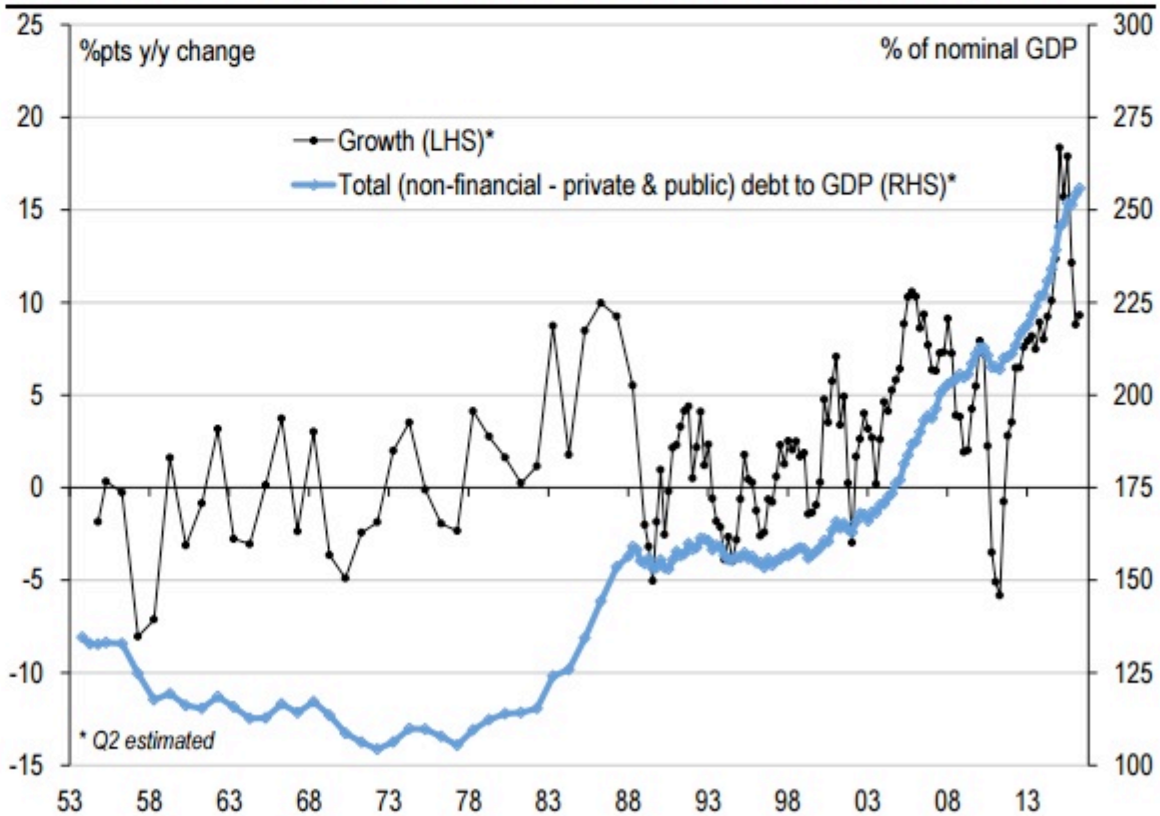
Ideas

- Growth and Aggressive investors could buy into the disruptive technology areas such as electric vehicles, lithium miners, solar/wind energy, energy storage and IT areas such as 3D printing, cloud, big data, and robotics.
- Moderate risk investors should be sure to have at least 40-50% in safe areas, as valuations are now stretched, global debt elevated, and global interest rates starting to rise.
- All investors should still keep at least some money in cash or safe fixed interest
- Sell Australian residential property unless it's your home.
- Invest in countries with good demographics, jobs growth, low debt and positive GDP
- Buy direct property in countries that are benefitting from globalization and where property is still cheap. Eg: Philippines (household debt/GDP is a very low around 10%), Thailand, Indonesia, Malaysia, Vietnam, Mexico, Myanmar, Cambodia, and Laos.
- Avoid Euro/UK/Japanese currency. AUD still likely to fall long term.

Does Australia have a debt problem?

You can view the chart below and decide for yourself. According to the chart we had a surplus back prior t 2004. Then we just went mad. The last decade of low interest rates has caused total debt to explode. Personal, corporate and Government debt is now a whopping 254% of GDP.
What happens when interest rates start to rise overseas as has started now in the US?
Time for Australians to baton down the hatches as a storm is coming. If rates continue to rise the fallout in Australia will be quite severe. Expect property prices to be hit the hardest.
I cannot say when this will happen, as mostly it will depend on interest rates rising and Australian unemployment levels. But if rates rise just 3% then expect a large fall in property prices across Australia. If rates rise only slightly over the next 5years then at best expect property prices to stagnate. Governments will also cut back on benefits, as the Government debt to GDP is now around 47%.
Even the IMF (who is usually late to the party) is ringing the warning bell on Australian debt. You can read more [here](#).

Figure 2: Debt to GDP lifted to a record high 254% of GDP in Q1 as leveraging continues at a relatively fast pace



Source: ABS, BIS, UBS

A second concern for Australia is that Chinese debt is also out of control, with total debt at 277% of GDP. Most of that debt is with the Chinese corporate sector at 165% of GDP.

My conclusion is Australian's should look to reduce their debt quickly, and also not be exposed to too much property.

A reminder of the new Superannuation contribution rules coming 1 July 2017

Concessional (tax-deductible) contributions

Prior to 1 July, 2017

Under 49 years of age on the 30 June in the prior financial year are limited to $30,000 of concessional contributions.

Aged 49 and over, on the other hand, have a higher concessional cap of $35,000.

From July 1, 2017

As of 1 July 2017, the concessional cap will reduce to $25,000 per financial year for all Australians, regardless of their age (as long as they satisfy the work test).

NB: If you don't utilize the full $25,000 cap from 1 July 2018, you'll be able to carry forward, for up to five years, the unused portion, provided your super balance is less than $500,000.

Non-concessional (non- tax-deductible) contributions cap (individuals under 75 years of age)

Prior to 1 July, 2017

$180,000pa

From July 1, 2017

$100,000pa

Allocated Pension balance limit

From July 1, 2017

$1,600,000

My latest Seeking Alpha articles
Rather than list them, you can follow the link below.
You can view my articles here- http://www.hnwfinancialadvising.com.au/hnw-articles.html)

To find out more please contact an adviser at contactus@hnwfinancialadvising.com.au.

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