QUARTERLY NEWSLETTER – October 2017

Major Indices

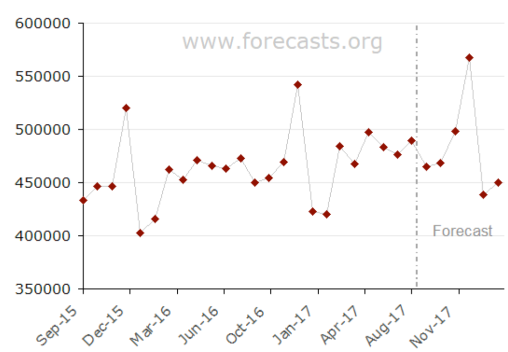
	Currency (AUD)	Interest Rate (%)	Share Index	*PE ratio (historical earnings)	Min daily wage (USD)	GDP Forecast (2018) IMF	Population (million)	Gov. Debt as a % GDP (as of 2016)
Australia	1.00	1.50	All Ords – 5,744	16.5 (All Ords)	136	3.0	24.6	46
USA (Dollar)	0.78	1.25	S&P 500– 2,519	21.9	58	2.5	326	74
Japan (Yen)	88	-0.1	Nikkei 225 – 20,356	15.8	85	0.6	127 (stagnant)	234
China (Yuan)	5.21	4.35	CSI 300 -3,836 Hang Seng 27,554	China-16.5 Hong Kong- 14.9	9.60	6.2	1,386	20
India (Rupee)	51	6.00	BSE 200– 4,280	21.0	3.40	7.7	1,321	52
Europe (Euro)	0.66	0.00	DJ Stoxx 50 3,594	20.0	56	1.5 (Germany)	738 (stagnant)	69 (Germany)
UK (pound)	0.58	0.25	FTSE 100 – 7,372	23.7	80	1.5	66 (stagnant)	92
Global	N/A			21.7		3.6	7,500	

*PE ratios (based on historical earnings),
10 Yr Bond Rate – 2.34% US 30 Yr Bond Rate – 2.87% Source: Bloomberg NB: Fastest growing population is by far Africa.

Commodities

Oil –Nymex (WTI) (USD/barrel)	51	**Iron Ore** ($/tonne) spot price	76
Natural Gas ($per million mbtu)	3.02	**Copper** (USD/pound)	2.95
Lithium(contract) ($/tonne)	12-15,000	**Nickel** (USD/pound)	4.72
Uranium (USD/pound)	20.55	**Zinc** (USD/pound)	1.45
Gold (USD/ounce)	1,282	**Aluminum** (USD/pound)	0.95
Wheat (cents/bushel)	449	**Corn** (cents/bushel)	356
Baltic Dry Index(BDI) +	1,260 (lower)	**Dow Jones Transport Index(DJT)**	9,914 (rising slightly)
US ISM manufacturing index	July 56.3	Aug 58.8	Sept
Chinese PMI manufacturing	July (Caixin) 51.1	Aug (Caixin) 51.6	Sept (Caixin) 51.0

U.S. Retail Sales



Commentary – Past 3 months

The past 3 months for share markets was another solid quarter of gains. Almost all major global stock markets rose over the quarter, with only Australia falling. Australian commercial property moved sideways.

Global share market Prices to Earnings (PE) ratios are definitely stretched now with the PE for the Global 100 at 21.7. The US PE is now at 21.9 and looking expensive relative to most other countries (except UK which is on a PE of 23.7), especially as rates are rising. The Buffett Indicator (US market cap/US GDP) is at 136%, suggesting the US stock market is still 36% overvalued. If the Trump tax breaks come through this won't seem so overvalued.

Asia is on a PE of 15.3 and is fair value, and China with a PE of 16.5 is no longer cheap, but probably close to fair value despite China's debt issues. Hong Kong still looks reasonable with a PE of 14.9. India is also looking reasonable on a PE of 21, given their high growth rate.

Global GDP is forecast by the IMF for 2018 at 3.6% in 2018, up from 3.4% in 2017.

USA economy is doing ok, and the IMF forecast is for 2.3% GDP in 2017. 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 slow growth but is perhaps improving, with Germany GDP forecast at 1.5% in 2018.

China is doing better than expected thanks to a pickup in the property sector. The IMF has 2018 China GDP forecast to reach 6.2%. 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 continues to be rather weak. The IMF has forecast 2017 growth to reach 3.1%, which is looking rather optimistic.

India is doing well with the IMF forecast 2018 growth at 7.7%.

Emerging Markets are doing a bit better with the IMF projecting 4.8% average growth in 2018.

Interest Rates remained the same in most of the developed world over the past quarter. India lowered rates by 0.25% to reach 6.00%.

US employment rose by 0.1% to 4.4%, and **Australia** rose by 0.1% to 5.6%. 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 very slightly higher this quarter, as the market is preparing for some minor US rate rises.

Inflation has still been mild in most countries and currently not a concern.

Currencies over the quarter saw the Euro and UK pound gain. The Aussie dollar strengthened slightly against most currencies (except the euro, pound and yuan). The Trade Weighted Index (TWI) is at 66.2 compared to the AUD at 0.78 indicating the AUD is still around 18% overvalued.

Population comment – It is interesting to note that India's population is growing quite rapidly and will soon overtake China as the world's most populous country. Asia is home to 60% of the World's population.

Commodities

Oil rose slightly this past quarter from USD 46 to USD 51.

Natural Gas moved sideways this past quarter from USD 3.04 to USD 3.02.

Lithium Carbonate China spot prices rose again last quarter, with China spot prices now around USD 18-20,000 a tonne, or around12-15,000 a tonne for large contract buyers. Lithium prices are up 20% over the past year.

Copper rose again this quarter from USD2.70 to 2.95 per pound. **Zinc, Aluminum** and **Nickel** all rose strongly over the quarter.

Iron Ore prices rallied strongly from $64 a tonne to $76 a tonne.

Uranium moved sideways USD 20.5 to USD 20.55 per pound.

Gold moved up from $1,241 to $1,282 per ounce.

Soft commodities (wheat and corn) both fell over the quarter, after strong gains the previous quarter.

Australian Resources price earnings ratio is still cheap at 13.0.

Commentary – Forecast next 6 months

Five of the **five** leading indicators are now positive. A strong positive indicator for the quarter ahead.

Dow Jones Transport Index (DJT) is a US 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 9,563 to 9,914. A positive sign for the US.

US Retail sales are forecasted to rise then fall due to the peak Christmas sales in December, but to be overall higher than this time last year. A slightly positive sign for the US.

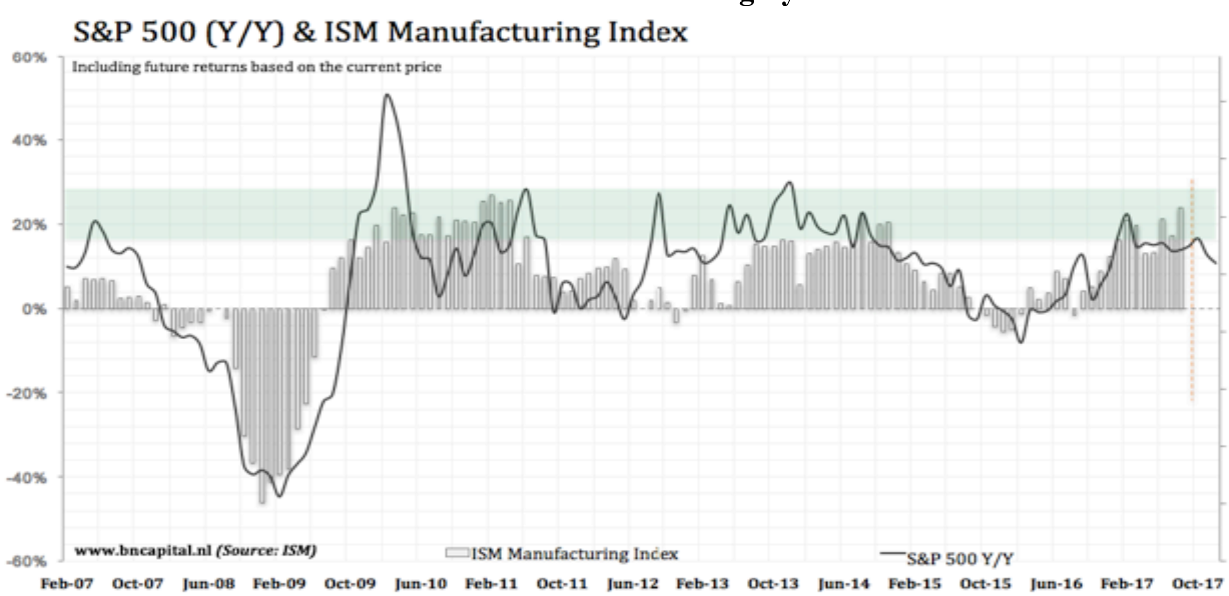
US ISM Manufacturing index - The latest numbers show that the ISM index has accelerated to 58.8 points in August. This is the highest number since 2011. A very positive sign for the US.

The HSBC Caixin Chinese Manufacturing PMI index –It has risen over the quarter with the September reading 51.0 showing China's manufacturing sector is doing a bit better now. The PMI Services Index has remained strong. Overall, a slightly positive sign for China.

The Baltic Shipping Index (BDI) – (the cost to ship raw materials such as coal & iron ore) surged from last quarter (from 849 to 1,260). A very bullish sign for China and the resources sector.

A summary of the above leading indicators right now is to expect a good period ahead as both the US and China forward indicators are looking good. Risks do remain – especially geo-political with North Korea, high current stock market valuations, and slightly rising US interest rates.

US stock market correlation to the US ISM index – Highly correlated



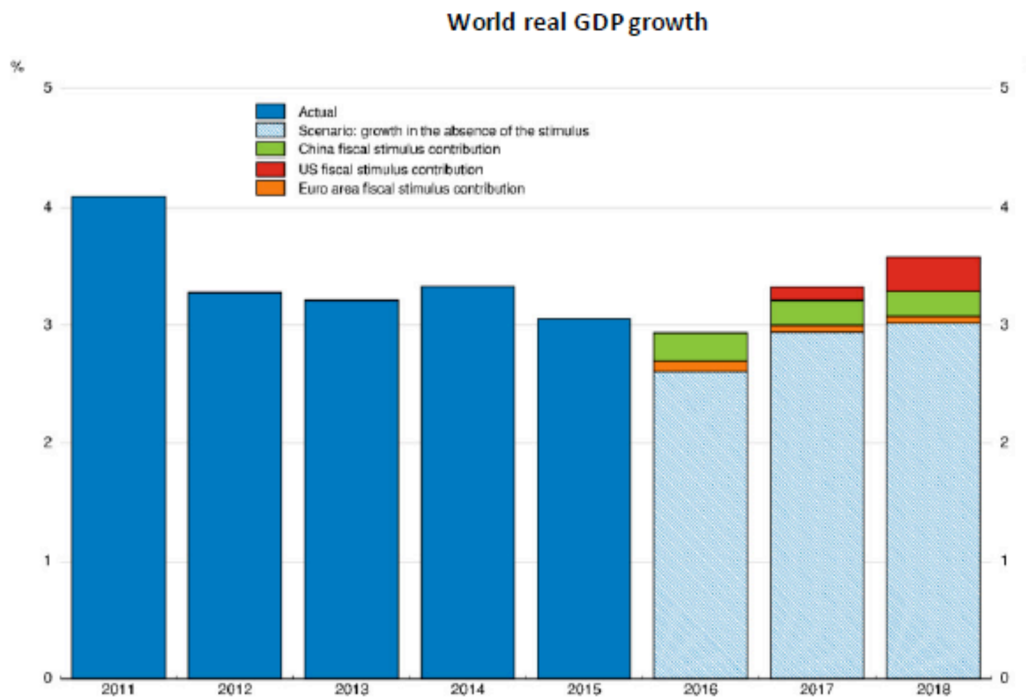
<u>Ideas</u>

- Growth and Aggressive investors could buy into the disruptive technology areas such as electric vehicles, lithium/cobalt miners, solar/wind energy, energy storage and IT areas such as artificial Intelligence (AI), 3D printing, cloud, big data, and robotics.
- Moderate risk (and retiree) investors should be sure to have at least 50-60% 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.
- AUD still likely to fall long term, and is still overvalued.

Global share markets discussion on valuation

US and UK markets are still somewhat overvalued, however low interest rates remain, allowing this for now. Asia is now fairly valued having been quite cheap in early 2017.
Investors should remain cautiously invested, with moderate risk clients remaining at 50-60% in safe areas for now.

World GDP improving in 2017



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