QUARTERLY NEWSLETTER – July 2018

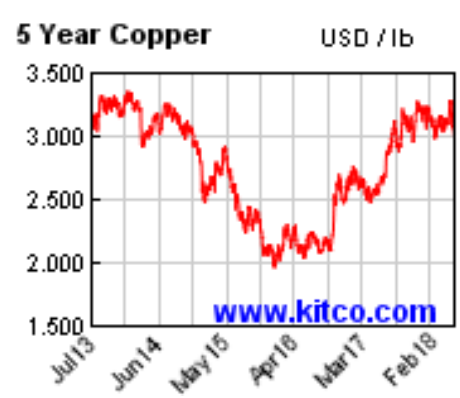
Major Indices

	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 2016/17)
Australia	1.00	1.50	All Ords – 6,273	16.2 (All Ords)	136	3.0	25.0	41
USA (Dollar)	0.74	2.0	S&P 500– 2,718	23.7	58	2.9	327	107
Japan (Yen)	82	-0.1	Nikkei 225 – 21,811	13.3	85	1.5	126 (stagnant)	236
China (Yuan)	4.91	4.35	CSI 300 -3,504 Hang Seng 28,955	China-12.9 Hong Kong- 10.7	9.60	6.6	1,392	65
India (Rupee)	51	6.25	BSE 200– 4,623	20.0	3.40	7.4	1,333	70
Europe (Euro)	0.63	0.00	DJ Stoxx 50 3,369	14.9	56	2.5	733 (stagnant)	64 (Germany)
UK (pound)	0.56	0.50	FTSE 100 – 7,564	14.1	80	1.6	66 (stagnant)	87
Global	N/A			19.6		3.9	~7,600	

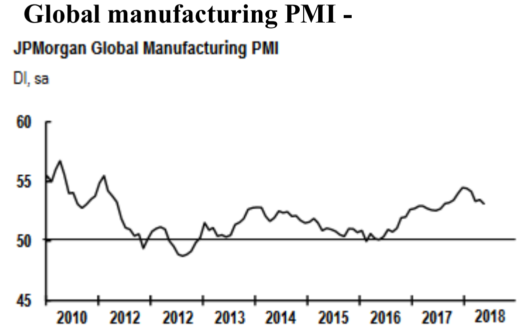
*PE ratios (based on historical earnings),
10 Yr Bond Rate – 2.83% US 30 Yr Bond Rate – 2.97% Source: Bloomberg NB: Fastest growing population is by far Africa.

Commodities

Oil –Nymex (WTI) (USD/barrel)	78.86	**Iron Ore** ($/tonne) spot price	65
Natural Gas ($per million mbtu)	2.89	**Copper** (USD/pound)	2.98
Lithium(contract) ($/tonne)	16,400	**Nickel** (USD/pound)	6.59
Uranium (USD/pound)	22.7	**Zinc** (USD/pound)	1.31
Gold (USD/ounce)	1,250	**Aluminum** (USD/pound)	0.95
Wheat (cents/bushel)	501	**Corn** (cents/bushel)	351
Baltic Dry Index(BDI) +	1,385 (higher)	**Dow Jones Transport Index(DJT)**	10,474 (slight increase)
US ISM manufacturing index	April 57.3	May 58.7	June
Chinese PMI manufacturing	April (Caixin) 51.1	May (Caixin) 51.1	June (Caixin) 51.0



Global manufacturing PMI -



Commentary – Past 3 months

The past 3 months for share markets was up and down

Most major global stock markets moved sideways over the quarter, with UK, India and Australia rising and China falling. Australian commercial property rose.

Global share market Prices to Earnings (PE) ratios have not changed much in the past 3 months. The US PE is now at 23.7 and still looking expensive relative to most other countries, especially as rates are rising. The Buffett Indicator (US market cap/US GDP) is at 143%, suggesting the US stock market is 43% overvalued. The Trump tax plan may reduce this overvaluation about 20% due to a boost in US corporate earnings.

Asia is on a PE of 11.8 and is quite cheap (partly due to fears of a trade war). China with a PE of 12.9 is also well valued. Hong Kong is a standout for value on a PE of 10.7. India is on a high PE of 20.0, but has a high growth rate.

Global GDP is forecast by the IMF at 3.9% in 2018, up from 3.4% in 2017.

USA economy is doing well, and the IMF forecast is for 2.9% GDP in 2018. President Trump has guided for 3-4% GDP in his term.

Europe is still improving with Europe GDP forecast at 2.5% in 2018.

China is doing quite well despite reducing fixed asset spending, closing down polluting factories, and reducing debt. The IMF has 2018 China GDP forecast to reach 6.6%. China is also spending big on electric vehicles and infrastructure, building the Silk Road (railway and highway) from China to Europe under their "One belt One road" master plan. Trade war fears are starting to impact Chinese confidence negatively.

Australia's economy continues to be mediocre. The IMF has forecast 2018 growth to reach 3.0%.

India is still doing well, with the IMF forecast 2018 growth at 7.4%.

Emerging Markets are doing well with the IMF still projecting 4.9% average growth in 2018.

Interest Rates remained the same in most of the developed world over the past quarter with the exceptions of the USA and India raising rates by 0.25%.

US employment fell 0.3% to 3.8%, and **Australia** fell by 0.2% to 5.4%. 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 mostly unchanged this quarter.

Inflation has still been mild in most countries with some signs of increasing.

Currencies over the quarter saw the US dollar strengthen/Australian dollar weaken. The Trade Weighted Index (TWI) remained at 0.62 compared to the AUD at 0.74 indicating the AUD is still around 19% 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. The word's total population is now past 7.6 billion.

Commodities

Oil rose strongly again this past quarter from USD 69 to USD 79.

Natural Gas also rose this past quarter from USD 2.73 to USD 2.89.

Lithium Carbonate China spot prices have fallen from elevated levels, with China spot prices still around USD 20,000 a tonne. Global contract prices are up about 20% in 2018 to 16,400 a tonne for large contract buyers.

Cobalt prices have finally started to pull back to US$35.51, having quadrupled the past 2 years.

Copper moved sideways this quarter from USD 3.02 to USD 2.98 per pound. Most of the other base metals moved sideways, except nickel and vanadium that rose strongly. Zinc fell again.

Iron Ore prices moved sideways from USD 65/tonne to USD 65/tonne.

Uranium moved up slightly from USD 21.50 per pound to USD 22.70/lb.

Gold moved down from $1,325 to $1,250 per ounce.

Soft commodities – Wheat rose and corn fell over the quarter.

Australian Resources price earnings ratio is good value at 13.9.

Commentary – Next 6 months

The major concern right now is an escalating global trade war. Chinese shares have already retreated, and global investors withdrew record amounts of dollars from share funds in June. Meanwhile forward indicators are mixed; however have weakened in June.

Ideas

- Growth and Aggressive investors could buy into the disruptive technology areas such as electric vehicles, lithium/cobalt/vanadium 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 about 50% in safe areas, as valuations are still stretched in US markets (but ok in other regions), 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.
- AUD still likely to fall further, and is still overvalued.

Conclusion

Stock market Valuations - Most metrics suggest the US stock market is still significantly overvalued. It appears to me that about a 20% market fall is necessary to get the US back closer to fair value. Having said that, the US market may continue to trade at a premium valuation. Many other global markets valuations such as Europe, UK, Japan, China, Australia and Canada are at more attractive valuations than the US.

Forward indicators - Forward indicators are mixed. The Global PMI is still quite positive despite slowing slightly. The US continues to look good with China having weaker forward indicators.

The above data suggests to me the global economy continues to do quite well; however trade war tariffs have caused a sudden worsening of investor sentiment. The US equity market is still overvalued and vulnerable to a healthy 20% correction. Slowly rising US interest rates and bond yields also need to be watched, with no panic needed as they are coming of a very low base. High debt related investments should be reduced. Right now a full blown trade war is a major concern.

Investors should assess their portfolio and be sure they can hold long term in case a trade war breaks out. It would be wise to have at least 30% in cash or safe assets, and more if you are a conservative investor or retiree.

My latest Seeking Alpha articles
http://www.hnwfinancialadvising.com.au/hnw-articles.html

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