Week

3

Stories To Read From FNArena

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Contents

Nickel Downside Risk

Indonesia's decision to overturn its nickel export ban may have dire consequences for the nickel price, although uncertainty reigns.

- Indonesia lifts nickel export ban - Downside nickel price risk may be material - Impact is difficult to quantify

By Greg Peel

Last year the Indonesian government decided that the country's exports of large amounts of low grade nickel to, in particular, the Chinese nickel pig iron industry, left Indonesia with a low margin industry and handed over the value-add to China. In order to secure the value-add for its own economy, the government instigated a ban on nickel ore exports in order to encourage the development of a local smelting industry.

The ban came as a blessed relief to global nickel miners given the world was facing a substantial nickel surplus, which had been placing significant downward pressure on the nickel price.

Enter Indonesia's partly state-owned nickel miner and processor, PT Antam. Back in September, the miner appealed to the government to lift the ban given the company was stockpiling ore of a grade too low to suit its own processing, but sufficient for export to the Chinese. With revenue going begging, the relevant Minister was set to accede to PT Antam when in stepped members of Indonesia's Smelting Associations, who pointed out a lifting of the ban would derail the development of Indonesia's smelting industry, make Indonesia appear an unreliable jurisdiction into which to invest, and specifically threaten investment already made by Chinese companies in the country.

In the latter case, Chinese stainless steel company Tsingshan has spent US$6bn to date on building a smelter, port and power station in Indonesia, on the assumption the law would not be changed.

The minister thus backed down. As far as commodities analysts were concerned, that was the end of the story. In the meantime, the new Philippines government also instigated a ban on nickel ore exports by companies deemed to be environmentally damaging. It all looked good for the nickel price heading into 2017, and for the share prices of nickel miners. At the very least, the bans would serve to clear out the global nickel surplus and bring the market back into balance.

While the news out of the Philippines was positive, the reality is that the environmental audit being undertaken by the government is proving a slow process. Until shut down, "dirty" Filipino nickel miners continue to export. While this had provided some strain on the nickel price recovery, nobody was prepared for what was to transpire last week.

Indonesian Flip-Flop

The Indonesian government has changed its mind, again. Nickel ore exports will be allowed to resume, but only from those companies who can satisfy strict requirements regarding the planning of and progress towards the construction of smelting facilities on the ground in Indonesia. PT Antam has won the day. As have Chinese nickel pig iron smelters, who since the bans have all but been shut down by a lack of global ore supply. One saving grace for Tsingshan is that it, too, can export to its own smelters in China. Indonesia's Smelting Associations are not happy.

So what does this mean for the nickel price? Analysts are unsure, other than to note there is no upside unless the Indonesian government again changes its mind. As to the extent of downside, analysts agree this could be material, but it will depend on certain factors.

Just how much nickel will suddenly be released onto the market? This depends on how many Indonesian producers can or will satisfy the government's rigorous smelter investment requirements. PT Antam alone, analysts note, has the capacity to release enough nickel ore onto the market to restart the Chinese pig iron industry and severely damage the price of processed nickel. But is this in PT Antam's interest?

It is more feasible that the company would drip-feed ore onto the market in order to restrain price falls, lest it shoot itself in the foot by losing on the price swing the revenue it gains on the export roundabout.

Focus On Downside Risks

Analysts are therefore in a difficult position, and as yet reluctant to definitively adjust nickel price forecasts until more is clear. One thing is for certain nonetheless – those adjustments will be to the downside, and perhaps materially so. Prior bullish theses are now out the window.

To date, only Macquarie (among the eight major brokers in the FNArena database) has downgraded its recommendation and target prices for Australia's two leading listed nickel miners, Western Areas ((WSA)) and Independence Group ((IGO)), cutting each to Neutral from Outperform pending greater clarity.

Among the database brokers, Macquarie had been decidedly bullish on the nickel price, while other brokers had otherwise decided the nickel price had run too far, too fast.

Citi and UBS both already had Neutral ratings on Independence Group, with Deutsche Bank on Sell. Credit Suisse upgraded Independence to Outperform last month on increased reserves at the company's Tropicana mine but will no doubt now reassess.

As for Western Areas, all of Citi, UBS, Deutsche Bank and Ord Minnett (Lighten) had Sell ratings in place prior, with Credit Suisse having downgraded to Neutral last month.

The share prices of both stocks took a hammering on Friday when the Indonesian government made its announcement. Western Areas fell -19% and Independence -10% and fell again yesterday before finding some support later in the session.

As to where to from here, that is unclear.

It should be noted, however, that as of late last year Western Areas was the third most shorted stock on the ASX, at over 13%, and Independence was also heavily shorted, in excess of 8%. Short-covering, therefore, may well be in play as the share prices of both companies currently consolidate.

May Slays The Pound

By Kathleen Brooks, Research Director, City Index

The FX market has spoken, and, as of Sunday night, it is not confident that Theresa May can deliver the necessary clarity and confidence when she lays out her Brexit plans in a speech on Tuesday. GBP/USD fell below the key psychological level of 1.20 at the start of play, suggesting that Theresa “pound slayer” May, could strike once again and we may see further declines in sterling this week.

The details of her speech are set include plans for the UK to leave the single market and the European Customs Union, which are a bit like kryptonite for pound bulls. The FX market has been incredibly sensitive to Brexit since the EU Referendum in June, but now that we have breached this level, where can we go from here?

Could May’s speech actually help GBP?

Tuesday’s speech in London could trigger a “material drop” in the value of the pound, according to one of the PM’s aides, but is the PM calling the market’s bluff? There is an outside chance that May’s speech, if it includes details on what will replace single market access, could actually benefit the pound next week, for three reasons.

Firstly, key Brexiteer, David Davies, has said that it is likely the government will push for a transitional deal to ensure that access to our European trade partners is not stymied during Brexit negotiations. Secondly, the weekend papers also featured comments from the European Union’s lead negotiator who voiced concern about shutting the UK’s financial system out of Europe because of the disruption this could cause to financial markets. Lastly, the City’s lobby group dropped its request for financial “passporting” rights at the end of last week, which suggests to us that they may believe that a better option is available down the line. Thus, Sunday’s breach of 1.20 could be a classic sell the rumour, buy the fact. However, Theresa May will need to give the speech of her life to reverse the wave of negative sentiment towards the pound right now.

Brexit certainty could prove to be the pound’s tonic

It will be an uphill battle for Theresa May to trigger a sustained pound rally this week, especially since Brexit has been a green light to sell sterling. Added to this, markets are once more reducing their long positions in sterling. According to the most recent CFTC data, net long positions in GBP/USD fell to -65.8k last week, vs. -64.7k the week prior. But, and it’s a big but, if she can deliver a level of candidness we have not come to expect from the UK government, this may be enough to slow GBP selling if she can deliver some level of certainty about what Brexit will look like and how the government will cushion any blow from leaving the single market.

GBP/USD on the precipice ahead of May’s speech

Late on Sunday, the market was not favouring the pound, suggesting that May’s foscus on immigration in favour of single market access has been viewed badly by the FX market. GBP/USD was flirting with the psychologically important 1.20 level, which could herald a move back to 1.1841 – the low from October’s flash crash (according to Bloomberg pricing). If Theresa May can’t instil market confidence on Tuesday then the second wave of GBP selling could trigger a move back towards 1.10 in GBP/USD, we would also expect heavy losses in GBP/JPY, and the pound’s recent recovery against the euro is also likely to reverse.

FTSE 100 a silver lining to pound weakness

Conversely, this could be good news for the FTSE 100, which has, so far, been immune to the bad news surrounding Brexit. and reached another record high on Friday. Even the FTSE 250 - which is a stronger reflection of the UK’s economy than the FTSE 100 – was also higher on Friday. This index has generally been tracking the FTSE 100 since December, suggesting that Brexit fears are not clouding investors’ view of the corporate Britain, at least not yet, anyway. We could see further FTSE 100 upside on Monday now that GBP/USD is below 1.20

Elsewhere, on the agenda...

This week we’ll mostly be talking about Burberry results on Wednesday, the ECB meeting on Thursday and, of course, Trump’s inauguration on Friday. May’s speech on Tuesday and her meetings with Chinese officials at Davos this week are also high on our agenda, as they could potentially move UK markets. But as the pound takes a dip at the start of this week, we believe Theresa May has a tough job to convince markets that she can manage a “clean and hard” Brexit, without doing long-term damage to the UK economy.

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Uranium Week: Relief In 2017?

After suffering a substantial price collapse in 2016, uranium has begun 2017 in a slightly brighter mood.

By Greg Peel

Welcome to FNArena's first Uranium Week report for 2017. Believe it or not, the uranium spot price has begun 2017 with two consecutive weekly gains.

In the first week of January industry consultant TradeTech's weekly spot price indicator rose US$1.50 to US$21.75 and last week rose a further US75c to US$22.50/lb. Did we see the bottom at US$18/lb? On average, the spot price fell 0.7% each week of 2016.

One swallow…they say. But it is a generally held belief that uranium prices must eventually recover for the simple reason the spot price remains well below the average global cost of production, and way, way below the estimated incentive price for new production. With the demand side still impacted by the glacial restart of Japanese reactors, the closure of legacy US reactors, and a shift away from nuclear power in Europe, further supply-side curtailments and closures simply cannot be avoided for much longer.

Production Cuts

In Australia, uranium producer Paladin Energy ((PDN)) continues to burn cash at current prices, and has responded with curtailments and divestments. Energy Resources of Australia ((ERA)) is enjoying much stronger legacy contract pricing for its stockpiled ore but has its expansion program on indefinite hold. In Canada, world-leading producer Cameco has curtailed production.

The greatest resources of uranium lie in Kazakhstan where last week state-owned producer Kazatomprom surprised the market by announcing a 10% production cut in 2017 due to near term global oversupply. Meanwhile, another legacy US reactor will be closed in New York State after 40 years of service due to economic unviability. Demand-side growth all comes down to China in the near term and in the medium term, India and other emerging economies.

The Kazakhstan announcement helped to sustain upward momentum in the uranium spot price last week but measuredly so. Six transactions were concluded totalling 550,000lbs U3O8 equivalent, TradeTech reports.

There were no transactions reported in uranium term markets nor any fresh demand. TradeTech's opening term price indicators for 2017 remain at US$22.00/lb (mid) and US$30.00/lb (long).

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Trump: Making America Volatile Again

By Kathleen Brooks, Research Director, City Index

Friday 20th January 2017 will see Donald Trump sworn in as the 45th President of the U.S.A. He has already proved to be a controversial choice for President, and his prolific tweeting has highlighted a sharp shift with the previous administration.

Trump has been vocal about his plans for the economy in the run up to his inauguration, and US financial markets have basked in the pro-business change in policy that is expected once the new President takes office. However, the focus post the inauguration will be how fast policies can be implemented, and whether Trump can deliver on all of his promises.

There are already some doubts starting to creep in, and in recent weeks US stock markets have pushed the pause button and traded sideways. The table below shows Trump's promises and their market reaction:

As you can see, there is a lot of bullish expectations around Trump's policies, however, there are also some major road-blocks to his vision to Make America Great Again (MAGA). The table below lists some of those challenges:

Trumpenomics' threat to US growth

The biggest problem with 'Trumpenomics' is that fiscal expansion coupled with protectionism tend to boost growth and employment when the unemployment level is high, however, the US is experiencing a very high level of employment at the moment, so these policies could actually hinder Trump's hopes of doubling the growth rate during his term in office.

For example, a large fiscal stimulus programme when employment levels are high does not boost production, but instead tends to increase inflation pressures. Likewise, any protectionist policies like increased tariffs on certain imports could also push up price pressures as household purchasing power remains strong.

Trump's economic policies actually increase the risk of higher interest rates over the next four years, as the Federal Reserve tries to neutralise looser fiscal policy with tighter monetary policy. Thus, Trumpenomics could lead to a cyclical downturn in the medium term.

MAVA: Making America Volatile Again

There are two main risk factors from Trump's Presidency, in our view. The first is a sell-off in the short-term once Trump moves into the White House. Much of the 'good' news for financial markets has already been priced in since November, thus, risk could get sold-off in a traditional buy the rumour, sell the fact trade.

A larger concern for traders could be the potential for increased levels of financial market volatility under Trump, as the market waits to see if and when his policies are enacted. Other risks for higher levels of volatility going forward include the President continuing to undermine certain corporations via Tweet. Boeing, healthcare and defence companies have all come under criticism from Trump in 140 characters. The US dollar also came under pressure recently, after Trump commented on the negative impact of a strong dollar.

US financial stocks, which have rallied sharply since Trump won last year's election, have seen a wave of selling interest in the last week as investors take profit ahead of Trump taking office. The risk for financial stocks is that the President won't be able to reduce financial market regulation, like he promised, leading to a deeper decline. Other sectors, including infrastructure are also at risk if Congress does not enact Trump's promised fiscal stimulus programme.

Overall, the markets have been willing to give Trump the benefit of the doubt in the last two and a half months'. Now that reality hits, profit-taking could be the order of the day.

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The Short Report

Guide:

The Short Report draws upon data provided by the Australian Securities & Investment Commission (ASIC) to highlight significant weekly moves in short positions registered on stocks listed on the Australian Securities Exchange (ASX). Short positions in exchange-traded funds (ETF) and non-ordinary shares are not included. Short positions below 5% are not included in the table below but may be noted in the accompanying text if deemed significant.

Please take note of the Important Information provided at the end of this report. Percentage amounts in this report refer to percentage of ordinary shares on issue.

Stock codes highlighted in green have seen their short positions reduce in the week by an amount sufficient to move them into a lower percentage bracket. Stocks highlighted in red have seen their short positions increase in the week by an amount sufficient to move them into a higher percentage bracket. Moves in excess of one percentage point or more are discussed in the Movers & Shakers report below.

Summary:

Week ending January 12, 2017

Welcome to the first FNArena weekly Short Report for 2017.

As of next week, this Report will revert to its regular format of providing a week-on-week update of movements in individual short positions on ASX stocks. But as this particular Report is the first for the year after a one month summer hiatus, this particular Report makes note of short position movements over the period of that month.

As one might expect, there are many. A comprehensive list of notable movements appears below in Movers & Shakers, but here are some highlights:

Aconex is now the most shorted stock on the ASX.

After a seeming eternity as a 10% plus shorted stock and often right up there among the most shorted, Monadelphous is now only shorted by 8%.

Mayne Pharma is now shorted 7.8% when not appearing in the 5% plus table last year.

The infant milk formula debacle has seen shorters take profits on Bellamy's Australia, but lift shorts on A2 Milk Company.

Other companies seeing notable decreases in shorts include Western Areas, Independence Group, Orocobre, Japara Healthcare, Mantra Group, G8 Education and Ozforex.

Companies seeing notable increases in shorts include Perseus Mining and Ardent Leisure.

Weekly short positions as a percentage of market cap:

10%+

ACX 16.6 MYR 16.1 TFC 12.0 WSA 11.9 SYR 11.0 VOC 10.7 NEC 10.2 MTS 11.5

In: VOC Out: MND

9.0-9.9%

WOR Out: VOC, ORE, BAL, JHC, HSO

8.0-8.9%

NWS, HSO, FLT, NXT, MND

In: MND, HSO, NXT Out: AWC, MTR, IGO, DOW

7.0-7.9%

AWC, DOW, MYX, MYO, EHE, BAL, ISD, ORE, IVC

In: BAL, ORE, AWC, DOW, MYX, ISD Out: NXT, OFX, BEN, GEM, GTY, CVO

6.0-6.9%

JHC, SGH, GTY, RWC, BEN, PRU, BKL, CTD, MTR, CSV, SEK, ILU, OSH

In: JHC, MTR, GTY, BEN, PRU, CTD, CSV Out: ISD, IFL, MSB, PRY, RIO, MLX

5.0-5.9%

WOW, MSB, GEM, BGA, IFL, RIO, IGO, A2M, OFX, CSR, AAD, AWE, CAB, AAC, ORI, IPH, MLX

In: IGO, OFX, GEM, MSB, IFL, RIO, MLX, A2M, AAD, AAC, IPH

Out: SUL, CSV, GXL, DMP, SPO

Movers and Shakers

Construction industry software provider Aconex ((ACX)) has seen its shorts increase to 16.6% from 14.3%, leapfrogging the stock over former most-shorted stock Myer ((MYR)) on 16.1%.

A lifting of the Indonesian nickel export ban has sent the prices of Australian nickel miners diving and prompted profit-taking from shorters. Western Areas ((WSA)) shorts have fallen to 11.9% from 13.5% and Independence Group shorts have fallen to 5.6% from 8.0%.

The oil price recovery has prompted a revival in the fortunes of Monadelphous ((MND)), which has seen a fall to 8.1% from 10.1%.

A US antitrust lawsuit filed against Mayne Pharma ((MYX)) has seen shorts jump from under 5% to 7.8%.

We all know the Bellamy's Australia ((BAL)) story. Shorts have fallen to 7.3% from 9.0% on profit-taking. Shorts in peer A2 Milk Company ((A2M)) have risen to 5.3% from under 5% prior.

The share price of mining darling du jour – lithium miner Orocobre ((ORE)) – has lately being flying around all over the shop. Shorts have fallen to 7.3% from 9.1%.

There was some relief in the residential aged care space, regulatory-wise, late last year. Shorts in Japara Healthcare ((JHC)) have fallen to 6.7% from 9.0%. Shorts in peer Estia Health ((EHE)) are hanging in there at 7.6%.

Perseus Mining ((PRU)) disappointed late last year with a list of problems at its gold mines in Cote D'Ivoire. Shorts have risen to 6.3% from under 5% prior.

The post-US election period has not been a joyous one for property trusts. Hotel and resort REIT Mantra Group ((MTR)) has seen its shorts fall to 6.2% from 8.3% on profit-taking.

The share prices of both child care centre operator G8 Education ((GEM)) and international payments processor Oxforex ((OFX)) have stabilised recently after a tough year. G8 shorts have fallen to 5.8% from 7.1% and Ozforex to 5.5% from 7.8%.

We also all know the Dreamworld story. Ardent Leisure ((AAD)) has popped into the bottom of the 5% plus shorted table at 5.3%.

ASX20 Short Positions (%)

To see the full Short Report, please go to this link

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position "naked" given offsetting positions held elsewhere. Whatever balance of percentages truly is a "short" position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, "short covering" may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to "strip out" the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio – a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option ("buy-write") position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a "long" position in that stock.

Another popular trading strategy is that of "pairs trading" in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a "net neutral" market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are "short". Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

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The Wrap: Miners, Steel, Healthcare, G8 Education

-Miners increasingly awash with cash -Potential nasty surprises for healthcare -China's steel reduction supports iron ore -UBS previews reporting season for emerging companies -G8 Education a potential turnaround story

By Rudi Filapek-Vandyck

Focus On Capital Management

How times have changed. It was only a year ago analysts and investors were speculating on which resources stocks might be about to breach debt covenants, and Whitehaven Coal ((WHC)) featured often on top of the list.

Now the boot is firmly on the other foot and the sector is enjoying almost unprecedented piles of cash flowing into miners' bank accounts, while those same analysts and investors are trying to figure out just how long exactly can this purple patch continue?

Now the biggest question in the sector is what to do with all that cash? Analysts at Citi point out the answer will be different for each miner. For example, BHP Billiton ((BHP)) likes to stonewall its single A credit rating, while Fortescue Metals ((FMG)) is aiming to reduce gearing to less than 40%. South32 ((S32)), on the other hand, is debt free and doesn't want to hold more than US$500m in cash.

So many options, so many possibilities.

On our observation, analysts have already started speculating about whether Rio Tinto ((RIO)) might pay out extra dividends, or maybe conduct a share buy back, why not both?

Analysis by Citi has identified Whitehaven Coal as the one with the biggest luxury problem. Key question: is the company first aiming at reducing debt to zero or will it start rewarding shareholders sooner?

Healthcare: Potential Surprises

It's not what we know that defines the year, it's what we don't know is about to happen. 2016 would be the perfect example.

Healthcare analysts at Morgan Stanley applied the principle to the sector in Australia and came up with five possible unaccounted for scenarios; only one would be a positive.

First the potential negatives:

1. A much stronger USD against EUR and GBP. While a stronger USD/AUD is beneficial for US profits, weakening currencies in Europe act as a negative. Ansell ((ANN)), for example, derives some 25% of revenues from Europe. For CSL ((CSL)) the percentage is 24% and for ResMed ((RMD)) the number is 29% of revenues. By the way: I think Ansell is not a healthcare stock, but that's a discussion for another time.

2. CSL and plasma collection cost inflation. It is the analysts observation plans to expand plasma collection centres would, if all executed, imply stronger growth than the market. This raises the prospect of over-supply. In the short term, however, Morgan Stanley notes the market is more likely to stick with the view that CSL stands out as a key beneficiary from mis-steps and supply chain issues among its competitors.

3. It is the analysts view that substantial capacity expansion in some of Healthscope's ((HSO)) key markets has compounded the earnings impact of volume weakness, but thus far, nobody else seems to be paying attention.

4. Cochlear ((COH)) shares are trading on lofty multiples but what if key competitor Advanced Bionics starts fighting back in 2017, grabbing back lost market share?

And here's the potential positive surprise:

5. Market rumours about a potential break-up of Primary Health Care ((PRY)) would, if executed, prove to be a positive for shareholders.

All in all, it is the analysts' view the healthcare sector was punished in 2016 for trading on too-high multiples. The severity of the relative underperformance is unlikely to be repeated in 2017, in their view, though any of the above mentioned scenarios can still have a major impact.

China Steel Reductions

China remains hell-bent on reducing steel production capacity and iron ore prices still trade above US$80/tonne. Go figure!

However, explain commodity analysts at UBS, things are not as contradictory as they might seem. China has an estimated steel manufacturing capacity of some 1.12bn tonnes per annum. The sector only produces 810m tonnes (UBS estimate). This implies idle capacity of no less than 310m tonnes.

To put that latter figure into context: idle capacity in China is larger than actual steel production in the USA and Europe combined.

For obvious reasons, when authorities target further reduction in capacity, it has no impact whatsoever on the steel sector's demand for iron ore and other inputs such as nickel, molybdenum, scrap steel, metallurgical coal, etc.

Ironically, suggests UBS, when idle capacity is closed China's steel sector becomes healthier, enjoying higher utilisation, higher margins and higher steel prices, which supports iron ore pricing. On UBS's projection, China's total steel production will remain stable (810m tonnes) for 2017. The government in Beijing reported 80m tonnes in capacity was closed in 2016.

Emerging Companies

Reporting season is approaching and analysts at UBS have dusted off their crystal ball and reviewed what's likely in store for "emerging companies" (their definition) in Australia for the season.

Cutting directly to the chase, the analysts have identified a few names that might disappoint with their financial performance as well as with their outlook. At risk of delivering such a double negative in February, according to UBS, are GBST ((GBT)), InvoCare ((IVC)), Monadelphous ((MND)) and TOX Free solutions ((TOX)).

The numbers are higher for companies likely to deliver a double positive: a2 Milk ((A2M)), Alumina Ltd ((ALU)), AMA Group ((AMA)), Bapcor ((BAP)), Costa Group ((CGC)), Cleanaway Waste Management ((CWY)), Freelancer ((FLN)) and freshly listed Ingham's Group ((ING)).

In more general terms, stocks in the emerging companies space that UBS likes for the year ahead include Adairs ((ADH)), AMA Group, EclipX ((ECX)), Gateway Lifestyle ((GTY)), Infomedia ((IFM)), NextDC ((NXT)), TFS Corp ((TFC)) and Tassal Group ((TGR)).

Turnaround Potential At G8 Education

The new guy in charge of analysing childcare centre operator G8 Education ((GEM)) for stockbroker Ord Minnett has taken the view that new management seems poised to surprise the market, which would not be too difficult a task, one reckons, given the long history of negative surprises and perennial disappointments this former market darling has been accumulating in years past.

We note the share price has swiftly recovered from levels below $3 last year, but shareholders remain underwater if they bought in between April and August last year, not to mention the share price once upon a time was way, way, way higher.

Jules Cooper, as the new guy in charge at Ord Minnett is named, believes if the new CEO's strategy comes to fruition, there could be material upside from the current share price. Unsurprisingly, the present share price is not seen accounting for any such positive outcomes.

The analyst draws optimism from a likely stabilisation in margins, the arrival of the new CEO and from the fact that small improvements in occupancy rates can potentially support a double-digit increase in operational profits and valuation for the shares. Ord Minnett has thus suitably upgraded to Accumulate (in between Buy and Hold) with a new price target of $3.78.

The latter might surprise as the shares are currently trading around $3.62 which is not that far off the target, but then Jules Cooper is still not sure what exactly the future might bring. His advice is investors should make a clean assessment of the company and keep an eye out for early signals of improvement.

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Restructured Aspen Ready To Rock 'n' Roll

Stockbroker Moelis has initiated coverage on Aspen Group with the expectation of strong growth in the years ahead.

By Rudi Filapek-Vandyck

Stockbroker Moelis has initiated coverage on property investment and management company Aspen Group ((APZ)) with a Buy rating and twelve month price target of $1.31, suggesting a total return potential of circa 26% from the present share price.

On Moelis' projections, Aspen is poised to grow profits strongly in the years ahead with the broker's modeling assuming EPS CAGR of circa 30% for the period FY17-19. On the back of this growth, dividend payments are expected to rise from 4.5c per share this year to 7c in FY19.

Aspen Group has been restructuring with Moelis observing the business has emerged with a much simplified format focused on affordable accommodation and with a balance sheet that offers the capacity to make accretive acquisitions, enhance park returns via operational initiatives, and undertake value-add activities including site intensification and brownfield developments.

Characteristics that receive the thumbs up from Moelis include exposure to the ageing population and rising inbound and domestic tourism themes, a capital-light development pipeline plus the opportunity to become a consolidator in a largely fragmented industry.

The company is at present debt-free and, assuming gearing of up to 30%, Moelis estimates there is a capacity to spend $65m on new acquisitions. The company is still leveraged to the resources cycle through the Aspen Karratha Village in the Pilbara, but tourism/holiday and mixed-use parks represent the largest part of the business, with retirement villages in Western Australia and NSW coming in third.

As I write this story, the company's official website is unaccessible.

ASX200: Caution Required

By Craig Parker, asset manager, Moat Capital

Are we looking at the start of the counter-trend that I have been mentioning around the 5700 level? A lot will depend on the S&P500 overnight, however if you look at our ASX200 daily chart below the MACD indicator has just rolled over with a crossover. You will also notice that the MACD has hit these levels a few times in the past couple of years and each time had a retracement. If this happens again I would be looking for some support between the 5500/5600 levels.

If you look at the ASX200 weekly chart below, we could retreat further and still be in a clear uptrend. For the uptrend to be broken on the weekly chart the market would need to drop below 5200 which is unlikely to happen based on recent positive sentiment. A positive for our market is also having the Iron Ore price sneak above the 80 level, albeit with some bearish weekly divergence on the RSI.

Going back to the S&P500 as mentioned earlier, it is illustrating some clear Bearish divergence (RSI) on the daily chart below and is hitting up against some resistance at the 2275 level. If the S&P500 were to break through this then our market will respond and head up towards the 6000 level. If the S&P500 were to correct then we will continue down around the 5500/5600 level as mentioned. The volatility index on the S&P500 is also at support levels so a jump up would mean a move down on the S&P 500.

Overall things are looking a little uncertain in the short term and some caution is required.

ASX200 Daily

ASX200 Weekly

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S&P500 Daily

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If you are reading this story through a third party distribution channel and you cannot see charts included, we apologise, but technical limitations are to blame.

Aussie Dollar Upside

Bottom Line 17/01/17

Daily Trend: Up Weekly Trend: Neutral Monthly Trend: Neutral Support Levels: 71.40 / 69.70 / 68.20 Resistance Levels: 75.20 / 78.40 / 80.00

Technical Discussion

The Aussie dollar has had a solid start to the year having run up strongly from 71.40 this month to 75.20, which is now on the edge of a minor supply zone. The run has been in line with strong Iron Ore prices which have now flown to a new 2 year high, which has come on the back of production cuts being proposed in China due to air pollution issues. Being a risk on currency though, just lately we have seen some minor weakness come into play potentially aligned to geopolitical issues, with Trump recently talking conditional rhetoric in regards to China's 'One China Policy'.

The pound has also taken a beating on lingering Brexit concerns and it is teetering on the edge of a bearish cliff technically. So plenty to keep us interested on the fundamental front in regards to currencies. CPI figures in the UK are coming out today and will either create stability or ruffle some feathers, so keep an eye on this. Not much happening in the States this week pre Trump's inauguration, be it New York's Fed President is scheduled to speak. Lets take a look at the technicals.

Reasons to stay cautious: → Inflation remains in check in Australia (yet watching) → unemployment data being monitored → Further interest rate cuts still possible → strong support zone 67.00 - 68.00 continues to hold → strong Iron Ore keeping price robust against a strengthening USD

Price patterns to the upside have been impulsive throughout January. Our medium term bullish interpretation of the trend that we were forwarding throughout 2016 admittedly hit a snag later on in the year, yet with 71.40 holding to this point, an intermediate A-B-C move higher still has potential. 71.40 is the line in the sand though so if it is broken below then the bears will be back in control. For now things are on a more neutral footing so could go either way, be it the past few weeks of price action has been positive. If our wave count proves correct, price action should now be traveling higher within an intermediate Wave-C. Wave-A vs Wave-C equality targets 81.60 with any push higher above 78.40 placing this proposed target as high probability.

More immediately though price is at an inflection point at 72.20 with further supply above here in play up to 78.40. Price is also hugging the 200 day moving and is overbought on our divergence indicator. So a healthy breather does look possible right here and if it does trigger then the potential for 73.00 to be revisited is very real, be it there is proven demand at this price point stemming back a solid 18 months. If 71.40 holds, we remain optimistic over the next 3 months or so as a minimum.

Trading Strategy

'There is a low risk opportunity to trade long here above 72.50 ...... ' We decided to hold off though to look for a more conservative entry based on the selling pressures price had been under since November last year. As mentioned in our review tonight, levels are now at an inflection point so this is not the time to start looking to take on long positions. Yet any breather from here that brings out strong buyer support will certainly see us looking for a swing trade opportunity on the long side from lower levels. It's back on our radar.

[Note: The Aussie is trading at 75.50 at the time of publication - Ed]

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