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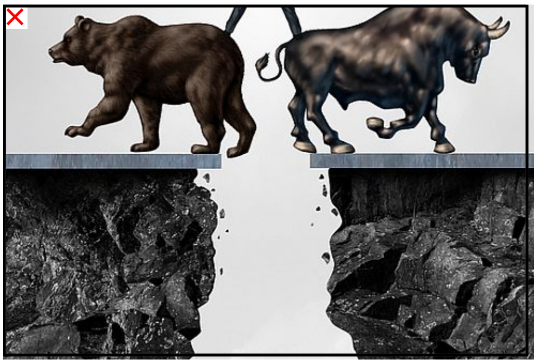
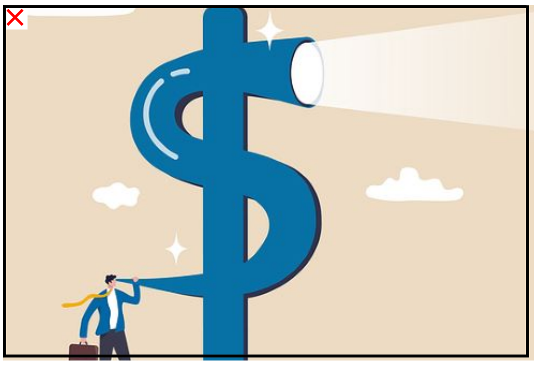
RBA: Not Over Yet



Material Matters: Recession, Decarbonisation And Price Forecasts



Rudi's View: RBA Hikes, US Recession, Portfolio Adjustments

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FNArena
Financial News, Data & Analysis

GPO Box 3145 - Sydney NSW 2001
info@fnarena.com

Your editor:
Rudi Filapek-Vandyck

Your dedicated team of journos:
Greg Peel, Danielle Austin, Mark Woodruff & Sarah Mills

AUSTRALIA

RBA: Not Over Yet

The RBA rate hike surprised the market but not economists, who largely believe there are still more hikes to come.

-Market caught out by RBA hike
-Recent data/evidence likely drove decision
-Economists largely see another hike yet to come

By Greg Peel

Ahead of yesterday, the futures market had priced in a 91% chance the RBA would pause its rate hikes for a further month rather than hike again so soon after pausing in April. The April statement implied the board wanted to pause to allow the lagged effect of hikes on the economy to catch up, before deciding on the next move.

On that basis, one month would never be much of a pause when the lagged effect could take between six and eighteen months, although it's now been twelve months since the RBA began hiking.

Such confidence the RBA would continue to pause belied what was revealed in the minutes of the April meeting, released later in the month. They suggested the April pause was not specifically to allow the economy to catch up, but rather to await the latest economic data that would inform whether things were on the right track. The most predominant of these was the March quarter CPI report, released last week.

While at 7.0% the headline CPI came in below the board's forecast, the core CPI, while lower, was not meaningfully lower, and highlighted that services inflation (eg rents for one) remained "sticky".

In justifying the decision to hike again yesterday, the statement noted:

"But services price inflation is still very high and broadly based and the experience overseas points to upside risks. Unit labour costs are also rising briskly, with productivity growth remaining subdued."

Speaking in Perth last night, the RBA governor explained the decision to increase the cash rate target to 3.85% came down to evidence the labour market remained very tight, and persistent global inflation and services price inflation in Australia. Furthermore, looking overseas suggests the services based inflation risks are to the upside given the "*high degree of commonality across countries in inflation dynamics recently*".

Higher house prices were not mentioned as a reason for the rate increase anywhere in his speech. Nor did the Governor make reference to stronger labour supply from higher net overseas migration, something the RBA had previously said could help manage labour market pressures. This omission may suggest the RBA does not view higher working age population growth as sufficient to balance higher labour demand right now.

The RBA rate hike surprised the market but not economists, who largely believe there are still more hikes to come.

Not Mentioned

While Philip Lowe may have made such omissions in his speech, responding yesterday to the decision Jarden suggested there were likely three key factors determining the rate hike decision: upside surprise to migration/population growth, the risk of larger Award and Enterprise Bargaining Agreement (EBA) wage increases, and the stabilisation/recovery in the local housing market.

Jarden believes the recent surge in migration is likely inflationary in the short term and the RBA clearly agrees, with the April minutes noting this was "somewhat inflationary". Jarden assumes this, along with recent research on the rental market, has likely partly driven the more hawkish tone and largely unchanged CPI forecasts, despite the lower than expected outcome in the March quarter.

The recent acceleration in EBA wages, along with the upside risk to Award wages this year, also likely played a role. Indeed, the minutes noted "increased risk of larger wage increases in parts of the economy".

Finally, the earlier stabilisation and recovery in the housing market (average price up 0.7% in April) has come as a surprise to most and brings with it upside risk to consumer spending and inflation. Together, Jarden suggests, these upside risks likely meant the RBA could no longer credibly expect to reach its inflation target by mid-25 without further hikes.

Also writing ahead of the speech, Morgan Stanley noted the May statement does not read materially different to the April one, which raises the question of why the RBA didn't choose to wait longer to "assess the lagged impact of prior hikes".

Morgan Stanley looks ahead to Friday’s Statement on Monetary Policy for more detail, but would point to 1) upside risks to wages growth over the second half 2023, as flagged in the April minutes; 2) the positive sentiment and risk response (especially housing) to the pause the prior month; 3) less downside risk in the global economy.

Ain’t Over Till It’s Over

While the market may have been caught out by the rate hike, economists were generally not, other than the brevity of the April pause. Economist consensus has been for further rate hikes to be needed, and while we now have a May hike, that won't be the end of it. A terminal (peak) rate forecast of 4.10%, ie one more hike, is most popular.

It all comes down to the timing, vis a vis the economic data due to flow over coming months.

In their responses, economists have highlighted a subtle change in the statement in May, which included "Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe," from April's "some further tightening of monetary policy may well be needed to ensure that inflation returns to target".

So, what's a "reasonable timeframe"?

Given the RBA paused for only one month before hiking again, we can assume quarterly CPI data are fundamental. The June quarter CPI data will not be out until the August meeting.

To that end, Morgan Stanley expects the RBA to pause again before moving in August dependent on the CPI result, but does point out there are other no less important indicators to be released in between.

These include next week's federal budget and the wage growth data due ahead of the June meeting, and the March quarter GDP result, Unit Labour Cost data and minimum wage decision ahead of the July meeting.

ANZ Bank suggests that given its own concerns about the stickiness of services and non-tradables price inflation, and the robustness in the labour market and the business sector, its forecast for a 25 point rate hike in August is retained.

UBS, which had expected yesterday's hike, suggests the most likely timing of the next hike will be July.

Citi sees another rate hike as still likely, but the risk is that the RBA could choose to pause again before further tightening monetary policy, drawing out the policy cycle for longer.

Jarden is less specific, arguing the addition of "a reasonable timeframe" in the statement suggests a strengthening of the RBA's resolve and, while it is not defined, would imply that any slippage from the RBA's expectation of inflation returning to 3% by mid-25 would warrant further tightening.

Westpac's economists are in a different camp:

"Going forward the weakness in the economy and slowing inflation is likely to eventually see the tightening bias fade; rates remain on hold for the remainder of the year with rate cuts beginning in the March quarter next year."

We await the subsequent data.

AUSTRALIA

April In Review: Rate Rise Pause Buoys Equities

The ASX200 gained 1.8% in April after the Reserve Bank placed interest rate rises on hold, leading to a strong rebound for real estate-linked stocks.

-The ASX200 gained 1.8% (total return) during April
-All sectors were positive, apart from materials
-Australian bond yields stabilised and real estate gained strongly
-Growth surpassed Value, while the Small Ordinaries outperformed
-Brokers are cautious on equities after the April rally

By Mark Woodruff

The ASX200 gained 1.8% (including dividends) in April as sentiment rebounded after a pause in monetary tightening, following ten monthly increases in a row by the Reserve Bank of Australia.

Share valuations were supported in the absence of earnings upgrades, and a rise in Sydney house prices along with improved auction clearance rates boosted the market outlook for Australian housing-linked stocks, explains Morgan Stanley.

The ASX200 just slightly shaded the MSCI Developed Markets Index and the S&P500 in the US, which gained 1.7% and 1.6%, respectively, in local currency terms.

Australian 10-year bond yields were relatively unchanged compared to previous months, rising by 4bps to 3.34%. US 10-year yields fell by -5bps to 3.45% on expectations of a pause to the Federal Reserve's aggressive rate hike path due to economic uncertainty, explains UBS.

On Tuesday, the RBA lifted its finger off the pause button and increased the cash rate by 25bps to 3.85%, as inflation remains too high.

In April all sectors on the ASX were positive except Materials, which lost -2.6%. Financials were the largest contributor to total returns, followed by Healthcare, Real Estate and Industrials.

Strong gains for Real Estate followed a weak March, explains Macquarie, when sector returns lagged the wider market due to US banking issues, while tight credit also amplified concerns over commercial property.

In percentage terms, REITs outperformed in April with a gain of 5.3%, while Information Technology and Industrials gained 4.8% and 4.4%, respectively. The worst relative performers were Materials, followed by Utilities and Energy with gains of 1.4% and 1.7%.

At the stock level, CSL ((CSL)), ANZ Bank ((ANZ)) and National Australia Bank ((NAB)) had the greatest positive impact on the index performance, whereas value was lost via iron ore-linked names BHP Group ((BHP)), Rio Tinto ((RIO)) and Fortescue Metals ((FMG)), notes Morgan Stanley.

The decline in the Materials sector was partly driven by China growth concerns, suggests Macquarie, which saw China equities fall by -5% and metals like iron ore (with a greater China focus) falling materially in price.

Generally speaking, quarterly updates from the sector were seen as disappointing, with Mineral Resources ((MIN)) the largest underperformer in the ASX100, losing around -9%.

Gold stocks continued their good run and have climbed by 54% in the last six months, more than doubling the 23% rise by the next closest industry group, Utilities.

Macquarie attributes this gain to a likely underweight positioning at the start of the six month period on top of a decline in the US Dollar Index, as well as a decline in real yields as markets price in expectations of central bank easing.

The Small Ordinaries Index gained 2.78% in April. All sectors had a positive impact on performance on a return and contribution basis. Consumer Discretionary, Real Estate and Financials added the most value for the month, while Consumer Staples contributed the least.

Commodity prices experienced mixed trends over the month, with the CRB Commodity Index rising by 0.2% to 268. Brent oil fell as fears of global recession continue to drive prices lower, while iron ore prices fell by around -8% on lagging steel demand from China, explains UBS. Gold prices remained relatively flat over the month.

Growth outperformed Value in April by 3.3 percentage points, largely driven by poor returns for mining stocks, notes Macquarie.

This broker suggests recent **intra-market movements both in Australia and in the US are not suggestive of a traditional new bull market.** A US recession later in 2023 is still anticipated.

Over the last six months in the US, it's felt the outperformance of Growth over Value by 12 percentage points reflects a market looking for more earnings certainty. Also, large caps and defensives in the US have outperformed over the last month.

In a statement made prior to Tuesday's rate rise in Australia, Morgan Stanley anticipated **weaker earnings ahead for the ASX200** and advised investors not to chase the recent rally in cash-rate sensitive sectors.

The activity cycle for housing is flying into an air pocket, and to suggest that adjacent retail categories can rebound, when the consumer has only just got started adjusting their wallet, appears hopeful rather than logical to the broker.

April In Review continues below the graphics and tables below.

ASX100 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
MGR - MIRVAC GROUP	15.87	SQ2 - BLOCK INC	-11.12
EVN - EVOLUTION MINING LIMITED	14.10	BOQ - BANK OF QUEENSLAND LIMITED	-10.63
SGP - STOCKLAND	11.81	MIN - MINERAL RESOURCES LIMITED	-8.57
RWC - RELIANCE WORLDWIDE CORP. LIMITED	10.87	FMG - FORTESCUE METALS GROUP LIMITED	-6.89
VUK - VIRGIN MONEY UK PLC	10.53	RIO - RIO TINTO LIMITED	-6.57

ASX200 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
TLX - TELIX PHARMACEUTICALS LIMITED	47.10	SYR - SYRAH RESOURCES LIMITED	-37.06
MP1 - MEGAPORT LIMITED	36.65	BRN - BRAINCHIP HOLDINGS LIMITED	-14.74
BKL - BLACKMORES LIMITED	35.03	SGR - STAR ENTERTAINMENT GROUP LIMITED	-11.19
BLD - BORAL LIMITED	17.05	SQ2 - BLOCK INC	-11.12
MGR - MIRVAC GROUP	15.87	BOQ - BANK OF QUEENSLAND LIMITED	-10.63

ASX300 Best and Worst Performers of the month (in %)

Company	Change	Company	Change
TLX - TELIX PHARMACEUTICALS LIMITED	47.10	SYR - SYRAH RESOURCES LIMITED	-37.06

MP1 - MEGAPORT LIMITED	36.65	NVX - NOVONIX LIMITED	-22.13
BKL - BLACKMORES LIMITED	35.03	5EA - 5E ADVANCED MATERIALS INC	-18.75
CDA - CODAN LIMITED	34.01	HAS - HASTINGS TECHNOLOGY METALS LIMITED	-17.65
JRV - JERVOIS GLOBAL LIMITED	33.33	ARU - ARAFURA RARE EARTHS LIMITED	-17.17

ALL-TECH Best and Worst Performers of the month (in %)

Company	Change	Company	Change
MP1 - MEGAPORT LIMITED	36.65	NVX - NOVONIX LIMITED	-22.13
CDA - CODAN LIMITED	34.01	NXL - NUIX LIMITED	-19.25
EML - EML PAYMENTS LIMITED	30.91	BRN - BRAINCHIP HOLDINGS LIMITED	-14.74
SYM - SYMBIO HOLDINGS LIMITED	18.11	SLX - SILEX SYSTEMS LIMITED	-14.10
BVS - BRAVURA SOLUTIONS LIMITED	12.50	SQ2 - BLOCK INC	-11.12

All calculations in the table below are ex-dividends.

Australia & NZ

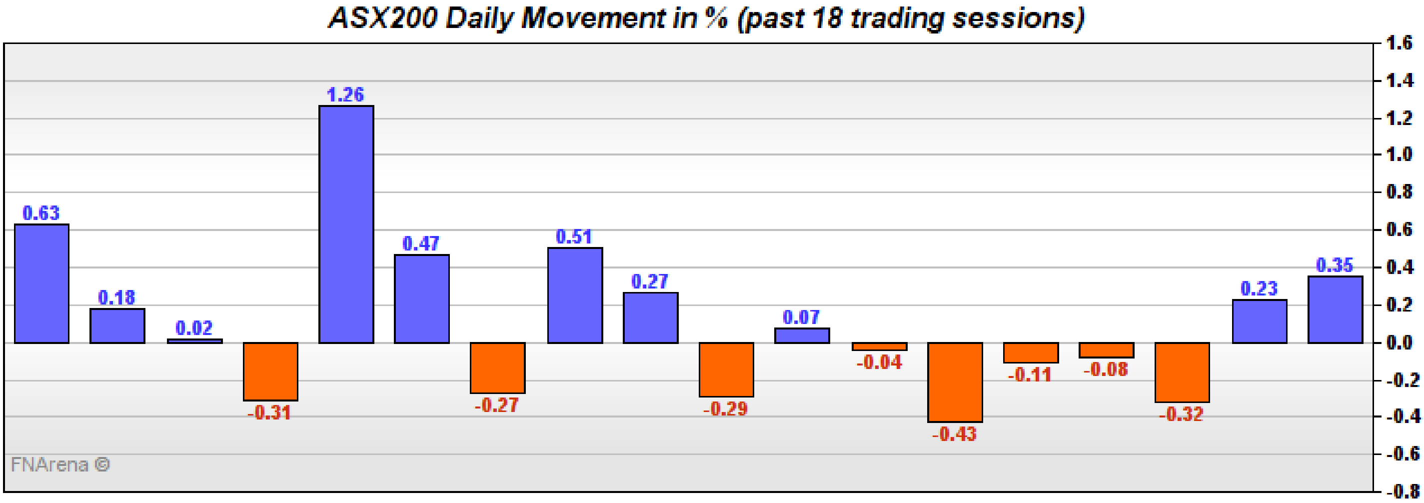
Index	30 Apr 2023	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2023)
NZ50	12019.840	1.14%	1.14%	4.76%
All Ordinaries	7501.00	1.73%	1.73%	3.87%
S&P ASX 200	7309.20	1.83%	1.83%	3.84%
S&P ASX 300	7263.40	1.83%	1.83%	3.72%
Communication Services	1571.20	3.63%	3.63%	11.35%
Consumer Discretionary	3082.30	2.75%	2.75%	12.89%
Consumer Staples	13546.80	1.77%	1.77%	8.01%
Energy	10611.40	1.49%	1.49%	-3.86%
Financials	6333.90	3.32%	3.32%	-0.38%
Health Care	44203.10	3.65%	3.65%	6.81%
Industrials	6887.10	4.42%	4.42%	10.47%
Info Technology	1584.50	4.82%	4.82%	12.74%
Materials	18023.10	-2.62%	-2.62%	2.75%
Real Estate	3140.00	5.14%	5.14%	4.56%
Utilities	8484.20	1.37%	1.37%	2.07%
A-REITs	1401.80	5.30%	5.30%	5.13%
All Technology Index	2282.90	3.18%	3.18%	13.83%
Banks	2572.50	2.99%	2.99%	-2.79%
Gold Index	7417.80	7.46%	7.46%	25.33%
Metals & Mining	6069.60	-3.15%	-3.15%	2.05%

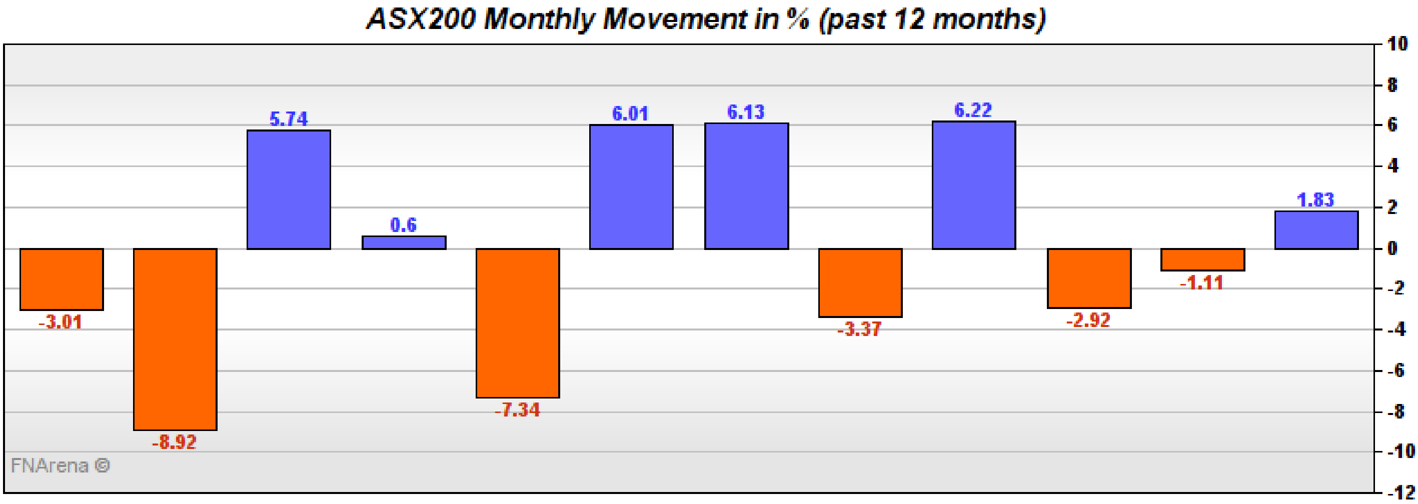
Metals & Minerals

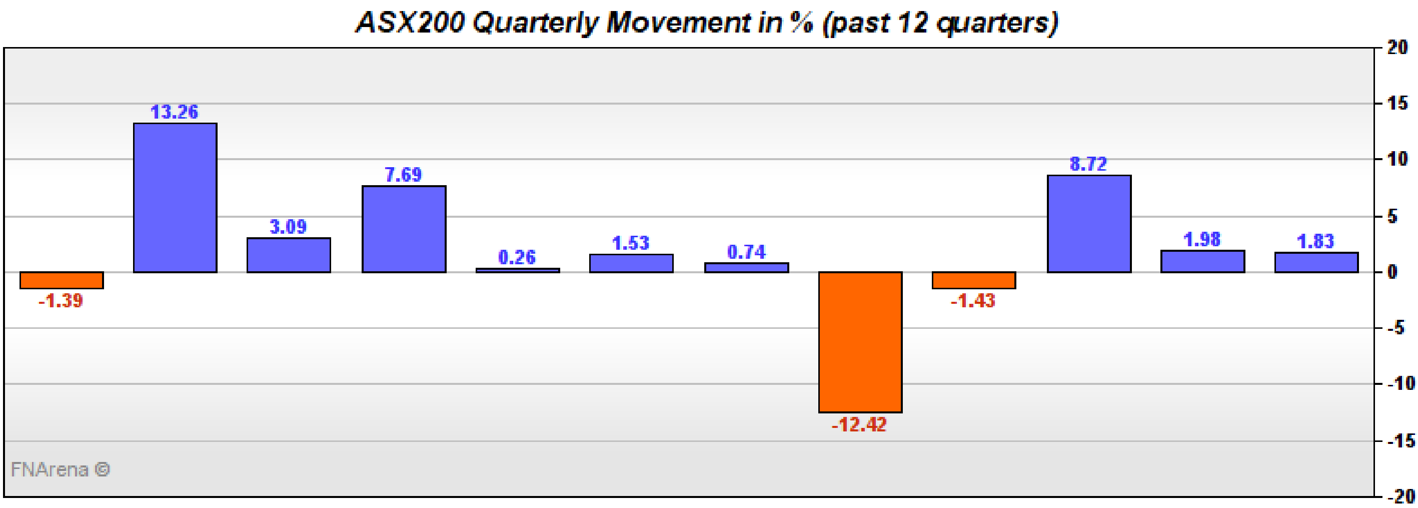
Index	29 Apr 2023	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2023)
Gold (oz)	1988.80	0.38%	0.38%	10.91%
Silver (oz)	24.91	4.18%	4.18%	6.09%
Copper (lb)	3.8353	-6.06%	-6.06%	2.18%
Aluminium (lb)	1.1471	-2.68%	-2.68%	-2.32%
Nickel (lb)	10.8325	3.25%	3.25%	-15.34%
Zinc (lb)	1.1766	-12.81%	-12.81%	-13.30%
Uranium (lb) weekly	51.25	1.99%	1.99%	7.67%
Iron Ore (t)	116.21	-7.67%	-7.67%	5.23%

Energy

Index	29 Apr 2023	Month To Date (Apr)	Quarter To Date (Apr-Jun)	Year To Date (2023)
West Texas Crude	74.76	0.59%	0.59%	-4.24%
Brent Crude	78.28	-1.21%	-1.21%	-3.93%







<u>Australian Financials Ex-Banks</u>

Financials Ex-Banks largely outperformed the ASX200 during April.

Perpetual ((PPT)) gained 14% after reporting better-than-expected flows and synergies in its March quarter trading update, explains Morgan Stanley.

On the other hand, Platinum Asset Management ((PTM)), Janus Henderson ((JHG)) and Magellan Financial ((MFG)) which returned 1%, -1% and -5%, respectively, are yet to stabilise outflows, on the broker's observation.

The analysts also highlight a 12% gain for Latitude Group ((LFS)) after the appointment of a new CEO, and following restoration of most systems following the much publicised cyber-attack.

<u>REITs</u>

The REIT sector outperformed the 1.8% gain by the ASX200 in April, delivering a total return of 5.29%, though is still underperforming the ASX200 by -12.7% on a rolling 12-month basis.

Outperformers for April include fund managers Charter Hall ((CHC)) and HMC Capital ((HMC)), as well as residential-linked exposures such as Mirvac Group ((MGR)) and Stockland ((SGP)).

Credit Suisse suggests current **challenges in the residential market are more cyclical than structural,** and investors feel Mirvac and Stockland will benefit from increasing demand for dwellings from population growth (including higher migration), as rental markets remain tight, and the worst of the rate hiking cycle appears over.

Underperformers during the month included healthcare-exposed names HealthCo Healthcare & Wellness REIT ((HCW)) and RAM Essential Services Property Fund ((REP)), as well as alternative sector exposures National Storage REIT ((NSR)) and Rural Funds ((RFF)).

From among the large cap diversified names, Credit Suisse continues to prefer Stockland. While there's value seen in fund manager Charter Hall, it's felt Goodman Group ((GMG)) will garner greater support in the short-term.

In Retail, Credit Suisse only just prefers Scentre Group ((SCG)) over Vicinity Centres ((VCX)), yet thinks neighbourhood retail exposures like Region Group ((RGN)) and Charter Hall Retail REIT ((CQR)) provide better relative value.

The broker awaits greater investor comfort around asset valuations for Office-exposed names, despite the current deep value on offer on a discount to book value basis.

Foreign exchange

The US dollar Index (DXY), a measure of the value of the US dollar relative to a basket of foreign currencies, decreased by -0.8% to 101.66.

The Australian dollar moved lower by -1.0% to US$0.6615.

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COMMODITIES

Rare Earth Elements: A Critical Challenge

Rare earth elements are critical in decarbonising the global economy but the world wants cleaner options and less challenging alternatives.

-Rare earth elements are not rare and their critical role in decarbonisation of the global economy is hotly debated
-Heavy usage of chemicals and environmental damage are two important negatives
-Large listed companies are looking for substitution and alternatives
-Australia's largest producer Lynas is relocating away from Malaysia back onto Aussie soil

By Megan Stals, Market Analyst at Stake (https://hellostake.com/au)

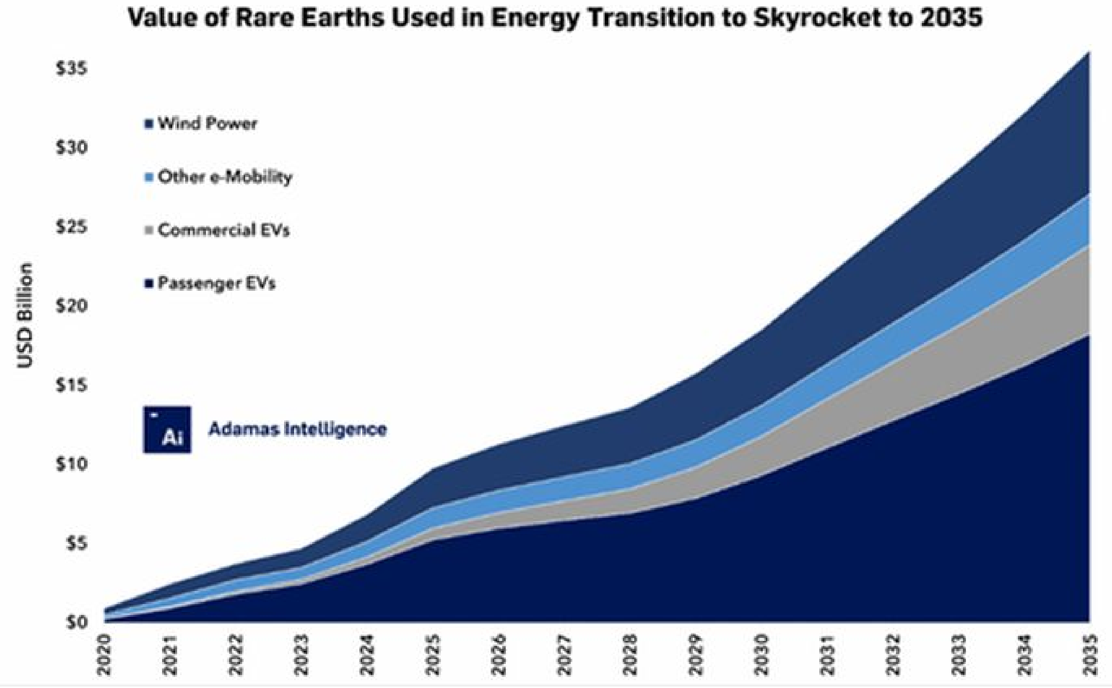
Several factors are behind the complicated market dynamics for the highly specialised commodities that are rare earth elements.

A critical mineral with constrained supplies and government backed projects ought to be a golden opportunity for investors. Despite this situation, the development of rare earth element (REE) assets has not been a straightforward journey.

The group of seventeen metals are not necessarily rare as their name suggests. Rather, REEs are not usually found in their pure form, especially in quantities that can be economically extracted. Yet they remain sought after due to specific properties that make them integral to several modern technologies like the permanent magnets used in various electronics and motors.

The expected growth of these permanent magnets is significant, mainly due to their use in EVs and wind turbines. The average electric vehicle requires around 1kg of REEs and a wind turbine needs nearly half a ton. This means a steady supply of these minerals is needed by anyone who wants to take part in the decarbonisation trends. Heated geopolitics has also made achieving greater energy independence more attractive in recent times.

Demand growth will be driven by passenger EV motors, which are expected to lead demand growth and account for more than half of REE consumption by value in 2035, followed by wind power applications adding another 25%.



Source: [Adamas Intelligence]

While the proportion of REEs mined in China has declined from 86% of the global total in 2014 to 70% in 2022 according to the United States Geological Survey, the country still dominates upstream activities. This area requires specific technical expertise, but comes with financial reward as certain products command premium prices. Rare earth element miners typically calculate a basket price for the combined product and the majority of the value is driven by a few REEs.

Heading to the source

In particular the Neodymium (Nd) and Praseodymium (Pr) used in permanent magnets are responsible for a high proportion of earnings and projects. The most geologically abundant REE, cerium, plays a much smaller role in the profit margins. As rare earth elements are very chemically similar to each other, they're difficult to separate after being extracted from a deposit. The process is often costly and involves large amounts of chemicals.

Many deposits also contain radioactive elements like uranium and thorium. Australia's only major REE producer, Lynas Rare Earths ((LYC)), needs to store the resulting radioactive waste materials extracted during processing. This has been an ongoing issue for the firm and a major reason for their planned move from Malaysia to Australia. It should be noted that when western countries exported manufacturing capabilities in previous decades, they also outsourced pollution.

Now countries and companies face increased scrutiny about the sustainability of all aspects of the supply chain as they try to gain greater control over the sourcing of critical minerals. China has spent years shutting down illegal operations and the environmental damage will be long lasting. On the other hand, the nation has built up great knowledge and stockpiles due to their early prioritisation of REEs.

Shaping the path ahead

By introducing new standards for their own miners, consolidating firms and implementing annual export quotas, China yields a significant influence over global supply levels. While rare earth element markets are relatively opaque and largely depend on private contracts, prices are impacted by these factors. Private businesses might need to absorb lower REE costs for long periods when developing new projects and processing facilities.

Investors could have concerns about whether some of these activities, especially the more expensive upstream assets, would go ahead without being given precedence and financial backing by governments. Given the applications of REEs in military equipment like night vision goggles, lasers and communications systems, the US Department of Defense has a high interest and deep pockets to support projects in appropriate locations.

However, these supply concerns bring incentives to develop new methods and find alternatives for REEs. Tesla has been reducing REE content in its permanent magnets and has announced plans to avoid them entirely in future models.

Apple intends to use only recycled REEs in its products by 2025. Listed companies have the additional motivation to try to insulate themselves from raw material costs.

Whether these substitutions can be realised in the near term remains to be seen, as motors with permanent magnets are generally considered to be the most efficient and lightest option. Rare earth elements are still in demand from a variety of technologies and bringing new capacity online can take time.

Only time will tell if the long term strategic plans will prevail in the REE industry and investors will likely need to ride out the usual volatility of commodities markets.

This does not constitute financial product advice. Past performance is not indicative of future performance.

Technical limitations

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COMMODITIES

Material Matters: Recession, Decarbonisation And Price Forecasts

A glance through the latest expert views and predictions about commodities: Recessions weigh, impacts from decarbonisation, World Bank forecasts & Morgan Stanley oil price forecast.

-Rolling recessions to weigh on demand for commodities
-Decarbonisation impacts on commodity markets and economies
-The World Bank's commodity price outlook
-Morgan Stanley's forecasts for the Brent oil price

By Mark Woodruff

Rolling recessions and a weaker US consumer to impact on commodities

Citi believes the US consumer is beginning to crack and rolling recessions across various countries over the next 12 months could reduce commodity demand.

After posting robust returns and outperforming in 2021 and 2022, following the 2020 pandemic shock, commodities are down around -6.8% so far in 2023.

Regarding oil, a grim and uncertain economic outlook continues to weigh, observes Citi.

Crude oil prices have now reverted to pre-OPEC production cut announcement levels last week, and Intercontinental Exchange (ICE) Brent September futures suggest to the broker weak underlying sentiment.

Commodity sub-index returns have varied, notes Citi, with precious metals and ICE soft commodities futures rallying versus industrial commodities. ICE softs have been the best performing sector, up over 20% year-to-date.

The broker remains structurally bullish on gold and silver into the end of 2023.

Decarbonisation impacts on commodity markets and economies

An increasing reliance on electricity around the world due to decarbonisation will result in power shortages, suggests ANZ Bank, and will have implications for commodity markets and broader economies.

Increasingly volatile weather and surges in demand will place pressure on energy systems that have limited storage capacity, according to the commodity strategists.

The upshot will be strong demand for coal and LNG to support baseload power. It's also believed further constraints on metal smelting, may arise, amid power interruptions and higher costs.

China is already building coal stockpiles in anticipation, with imports of coal in March rising by 151% year-on-year, despite higher domestic production.

Electricity accounted for 10% of the world's total energy consumption in 1980 but has grown to nearly 18% in 2022.

This additional usage is even greater in China amid an acceleration in the electrification of the transport sector, explains ANZ, which is placing additional pressure on the energy network.

At the same time, extreme temperatures and low water levels in China are threatening to dampen hydropower generation. Hydropower is a key part of the country's energy mix, producing over 16% of total electricity in 2022.

The National Energy Administration in China has highlighted three elements needed to guarantee China's energy security: domestic resources (mainly coal and coal power); renewables and nuclear; as well as better risk management.

The only real option in the short term, according to ANZ, is to expand coal-fired power capacity.

Moreover, the bank points out India's coal imports are also remaining strong as it restocks ahead of summer demand.

Over in Europe, base load power sources such as coal and natural gas are also expected to come under pressure, according to ANZ, while gas supply disruptions are anticipated amid the ongoing tensions with Russia. In addition, the region is experiencing issues with its current nuclear power supply.

France has been enduring intermittent disruptions to power output from its nuclear power plants for several years, observe the strategists, and Germany has moved ahead with a planned phase-out of its nuclear power plants.

In Australia, the supply-demand balance is very tight in New South Wales during periods of maximum demand, and there is a greater risk of unplanned outages amid an aggressive phase-out of fossil fuels, suggests ANZ.

Gas-fired generation is expected to play a crucial role, as coal-fired generation retires, complementing battery and pumped hydro generation in periods of peak demand.

In the near term, ANZ forecasts coal prices will face downward pressure due to weak demand from Europe and China. As concerns about energy shortages in Europe ease, lower gas prices are also expected to weigh on coal demand.

Ultimately, ANZ predicts supply disruptions in China should see coal import demand pick up ahead of a recovery in industrial activity.

The World Bank's commodity price outlook

For the remainder of 2023, the World Bank predicts commodity prices will remain broadly unchanged, amid improved supply prospects and weakening global demand.

The bank's biannual Commodity Markets Outlook (published in late-April for the period ending March 31) predicts an overall -21% decline in global commodity prices for 2023, -14% of which had already occurred by the end of March.

There won't be a lot of relief for consumers, however, as **the bank expects prices will remain above average levels experienced over 2015-2019, prior to the pandemic**.

The surge in prices after Russia's invasion of Ukraine has largely been unwound on a combination of slowing economic activity, favourable winter weather and a global reallocation of commodity trade flows, explains the World Bank.

Risks to the bank's price forecast are tilted to the upside, primarily because many of the factors underlying the shocks to commodity markets in recent times still prevail.

These upside risks include possible disruptions in the supply of energy and metals (in part due to trade restrictions), intensifying geopolitical tensions, a stronger-than-anticipated recovery in China's industrial sector and adverse weather events.

Disappointing global growth is considered the major downside risk for commodity prices.

In 2023, the World Bank expects the energy price index will fall by -26% from 2022, mostly driven by a decline in natural gas prices, and remain broadly stable in 2024. Again, most of this decline has already occurred.

Brent crude oil prices are forecast to average US$84/bbl in 2023, down from US$100/bbl in 2022, before a slight increase to US$86/bbl in 2024 as supplies tighten.

Other World Bank forecasts for 2023/2024 include: Gold US$1,900/1,750/oz; iron ore US$115/110/t; Coal (Australia) US$200/155t and copper US$8,500/8,000/t.

Morgan Stanley's forecasts for the Brent oil price

The dominant narrative in the Brent oil market up till now has revolved around a second-half tightening in fundamentals.

By contrast, Morgan Stanley suggests the post-lockdown snap-back in oil demand in China is largely complete, and predictions of a decline in supply out of Russia are overstated.

The broker now forecasts Brent oil prices will remain in their recent US$75-85/bbl range, with a skew towards the bottom-end of that range by year's-end, when the market enters a period of seasonal softness and OPEC's 'voluntary cuts' come to an end.

China's crude imports and its refinery runs are already back to all-time highs, explains Morgan Stanley, leaving little room for more normalisation in the wake of lockdowns.

Also, Russia's oil production has been remarkably resilient, in the broker opinion, falling by around -0.4 mbbl/day only from recent peaks. This performance is despite the EU's long-standing crude and product embargoes on oil imports from the country.

While the oil market still has long-term supportive factors, with demand likely to continue to grow over the balance of the decade, according to Morgan Stanley, the structural and the cyclical do not always align.

The broker predicts a modest oversupply for the Brent oil market in the early part of 2024, as part of the recent OPEC cuts to production will likely reverse. Also, nine non-OPEC countries are considered to be on a structural production up-trend.

Moreover, by 2024, Morgan Stanley points out China will have re-opened, the pace of recovery in aviation will likely slow down substantially and the rest of the world is already operating as normal.

RUDI'S VIEWS

Rudi's View: Seeking Quality & Growth Offshore

In todays Weekly Insights:

-Confession Season... It's Baaaaaack!
-Seeking Quality & Growth Offshore

By Rudi Filapek-Vandyck, Editor

Confession Season... It's Baaaaaack!

Once upon a time the two months preceding the end of financial year, and the subsequent weeks leading into reporting season in Australia, caused more than just a little bit of anxiety among investors as market updates might well translate into that universally dreaded **Profit Warning** that has the potential to inflict a lot of damage to a company's share price.

Recent years have not seen much in terms of profit warnings ahead of the official results season, but early signals are this year might be different. The past week alone has seen market updates by the likes of AdBri ((ABC)), Bubs Australia ((BUB)), Cluey ((CLU)), Mirvac Group ((MGR)), Synlait Milk ((SM1)) and Insignia Financial ((IFL)) force analysts to downgrade forecasts for the financial year running.

Troubled IOUpay ((IOU)) has effectively gone out of business. Most production updates by miners and energy companies proved disappointing too, marred by project delays, weather impact, lower prices and higher operational costs.

It's not all bad news though, as share prices of Bubs, Mirvac Group and Insignia Financial had already largely accounted for what was coming. Sometimes bad news can actually free-up the next move upwards on the reasonable prospect of less-bad conditions ahead, potentially.

Regardless, investors would be wise to not simply assume today's market laggards are by default a great bargain with Synlait Milk yet again proving there's no bottom when troubles keep accumulating.

Trading around $12 in 2018 and having started the running calendar year above $4, today's share price of less than $1.50 reminds me of the old share market joke:

What's a stock that's down by -90%?

That's a stock that first fell by -80%, and then halved yet again.

It's not all negative news though with corporate market updates to date, on balance, proving more positive than negative. Notable positive surprises have been delivered by Camplify Holdings ((CHL)), Helloworld ((HLO)), Megaport ((MP1)), Perpetual ((PPT)), Reliance Worldwide ((RWC)) and Stockland Group ((SGP)).

Such profit warnings (both negative and positive) are often quite random which makes it difficult for investors to prepare or anticipate. Yet one source of potential weakness is the so-called **Second Half Club**; companies that need a strong second half to meet guidance or market expectations.

The February results season saw this group of companies swell to nearly 50% of all companies, suggesting there is plenty of potential for a lot more negative surprises in the weeks and months ahead.

Local market strategists at Morgan Stanley offer another potential approach; adopting a theoretical framework developed by their colleagues in Europe to establish which companies have been over-earning due to covid previously, the local strategy team has identified four sectors in Australia in danger of an earnings reset, which in practice means: be careful, here's a higher chance for negative profit warnings.

The Morgan Stanley modeling has identified energy, discretionary retail, staples and real estate as sectors most at risk.

All shall be revealed in the weeks & months ahead.

Seeking Quality & Growth Offshore

The promotors of international markets have a way of making us all feel silly and ignorant: do you realise Australian equities represent no more than 2% of the global pie? If you stay local, you are missing out on 98% of what is out there!

It is difficult to argue with the numbers, but what should equally be front of mind is that Australia is inside the Global Top Three when it comes to long-term average investment returns. At the very least this provides local investors with plenty of reasons not to make any rash decisions.

Ultimately, investing is about sustainable return and there's little value in diluting one of the best performing markets with less-returning alternatives, just for the sake of it.

One such alternative are Emerging Markets; according to some a must-have exposure because of the much higher economic growth that is on offer, but if history shows one thing it is that higher economic growth does not by default translate into better performing equity markets.

Look no further than China where equities have pretty much endured a lost decade (and then some) post-GFC. Even today the prospects for Chinese equities in the years ahead remain one of the hottest debates around.

This is especially important as most exchange traded funds or ETFs that promise Australian investors easy access to above-average GDP growth in Emerging Markets tend to be overweighted towards China.

Take the **iShares MSCI Emerging Markets ETF** as an example. Its exposure (as per info on the Blackrock website) is 31%-plus China, 14.5% Taiwan, 13.5% India and nearly 12% South Korea.

Does this genuinely look like the right instrument for access to Brazil, Mexico or Indonesia?

Performances and momentum across various EMs can polarise significantly, and in most years that's exactly what happens. The added complication for Australian investors is that during times of local outperformance, the vulnerabilities elsewhere can be quite the painful experience.

Note also with China and Taiwan the two largest exposures, combined circa 45% of total assets for the ETF, geopolitical risk should be front of mind also.

Total return for the iShares ETF mentioned ended on minus -15.07% in 2022, having only returned 2.03% in 2021. US shares also underperformed Australia last year, but major indices are ahead thus far in 2023 mostly carried by a handful of Big Technology companies.

In Europe so far this year the German DAX30 index is close to mimicking the Nasdaq's return, while the gain for Japanese equities is equally above 10%. The Dow Jones Industrial Average, on the other hand, is only narrowly positive year-to-date.

In summary: adding international exposure to Australian equities is by no means an easy route towards better investment returns. It may, on the contrary, turn out a costly lesson during challenging times.

In recent years investors have witnessed an almost relentless outperformance by US markets (2022 not included), which no doubt has created the general impression that US markets simply perform better.

However, according to Credit Suisse's Global Investment Returns Yearbook the long term returns from investing in Australian and US equities are virtually equal, suggesting periods of outperformance by one are followed up by relative underperformance during other times.

Australia and the US are two of the **Global Top Three performers since 1900**, with South-Africa the only market with even better return, but also with much greater swings between large gains and outsized losses.

The Australian market has the added benefit of superior dividend yields, enlarged through the beneficial tax system of franking, plus it consists of companies that often literally operate in investors' backyard. The latter means much easier access to daily news flow, company officials and updated research.

It's much easier to stick with the Devil-you-know if that delivers some of the best returns available, over time, with the comfort of playing a home game. Life already has plenty of complications on its own.

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Having said all of the above, there is one strong argument as to why looking beyond Australia might not be a bad idea: the rest of **the world offers more options**.

At the end of the day, there's only one CSL ((CSL)) available on the local bourse, and the same applies to REA Group ((REA)), Carsales ((CAR)), Seek ((SEK)), ResMed ((RMD)) and Cochlear ((COH)).

And while Altium ((ALU)), WiseTech Global ((WTC)) and Pro Medicus ((PME)) are doing a commendable job in establishing themselves as a global leader in their respective markets, all still are relatively small-sized companies and, equally important, stand-out exeptions among lesser fortuned peers.

The ASX has a broader suite of offerings for investors wanting exposure to iron ore, gold and lithium, but even the local mining sector has some notable gaps including silver, diamonds, platinum, potash and palladium.

Looking beyond the limitations inside Australia's borders thus doesn't sound like too crazy an idea. The service FNArena provides, including ever more data, is specifically designed for investors investing in Australia, but we have equally access to research on foreign markets.

Some of recent reports are worth highlighting for those investors looking offshore.

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Recent research by **UBS** zoomed in on **sustainable dividend growers**, which seems like an obvious focus when the future looks uncertain (which is the general view at UBS).

History shows if/when economic recessions occur, dividend paying stocks outperform, with UBS research showing just that for the years 2001, 2008, and 2020. The best dividend exposures are through companies that combine dividend with rapid growth.

UBS's screening of US-listed companies highlighted the following with at least 10% dividend CAGR between 2022 and 2025 (ranked in line with predicted pace of growth, highest first):

-Fidelity National Information Services (FIS)
-Analog Devices (ADI)
-Houlihan Lokey (HLI)
-DuPont de Nemours (DD)
-American International Group (AIG)
-Intercontinental Exchange (ICE)
-FMC Corp (FMC)
-NextEra Energy (NEE)
-Darden Restaurants (DRI)
-Home Depot (HD)

The following are projected to grow at just below 10% dividend CAGR over the period:

-Bank of New York Mellon (BK)
-CVS Health Corp (CVS)
-Air Products and Chemicals (APD)

One thing Australian investors have to get used to is lower yields on offer relative to the 4%-5% and higher yields that are currently available on the ASX. The highest yield (forward-looking) in the lists above resides with Fidelity National Information Services at 4.5% with all others offering between 1.7% and 3.3%.

If one starts off from the highest yields and then adds the necessity for high growth, we end up with a different list. The stocks below offer between 6.2% at the top and 3.0%:

-Hannon Armstrong Sustainable Infra (HASI)
-Huntington Bancshares (HBAN)
-Fifth Third Bancorp (FITB)
-Fidelity National Information Services (FIS)
-American Electric Power (AEP)
-Public Service Enterprise Group (PEG)
-Exelon Corp (EXC)
-Bank of New York Mellon (BK)
-PPL Corp (PPL)
-Axis Capital Holdings (AXS)
-CVS Health Corp (CVS)
-Darden Restaurants (DRI)
-Cardinal Health (CAH)
-AES Corp (AES)
-American International Group (AIG)

****

A recent strategy update by **Wilsons** highlighted the relative resilience of the Australian share market, which should this year find ongoing support from a domestic economy that is likely to avoid economic recession.

At the same time, Wilsons warns about complacent asset allocation which, in Australia, almost by definition implies portfolios have too much exposure to dividend-paying banks. Wilsons' model portfolio is underweight Australian banks.

It goes without saying if a recession in the US, and potentially in Europe and elsewhere, weighs on commodity prices this will most likely be reflected in lower share prices for the likes of BHP Group ((BHP)), Rio Tinto ((RIO)) et al.

Wilsons agrees with the philosophy of accessing more choice (through going international) and in particular highlights **corporate profit growth ex-Australia has been far superior** post-GFC in comparison with local EPS growth. The motivation is thus to look beyond the ASX to access more companies offering superior growth.

Wilsons is not a fan of seeking out any ETFs, instead pointing towards actively managed global equity funds that look best prepared to deliver strong, risk-adjusted returns over a full market cycle, in addition to an actively managed domestic equities allocation.

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Morgan Stanley is one of few that tries to identify the highest **Quality companies** that should prove their resilience both through challenging times, as well as over a longer-term timeframe, a la my personal research into All-Weather Performers in Australia.

A recent update is titled **30 for 2025**, implying the following thirty High Quality North-American companies should be great to own, at least until 2025:

-Alphabet
-American Express
-Blackstone
-Cheniere Energy
-Costco Wholesale
-Eaton
-Eli Lilly
-Estee Lauder
-Exxon Mobil
-Hilton Worldwide
-Intuitive Surgical
-JPMorgan Chase
-Liberty Formula One
-Linde
-Lululemon Athletica
-MasterCard
-Microsoft
-Motorola Solutions
-MSCI Inc.
-NextEra Energy
-Nike
-Northrop Grumman
-Old Dominion Freight Line
-Prologis
-Raytheon Technologies
-Thermo Fisher Scientific
-T-Mobile US
-UnitedHealth Group
-Visa
-Yum! Brands

When the team in **Europe** sat down with the same task, they identified **35 Quality stocks for 2025**:

-3i
-Air Liquide
-Ashtead Group PLC
-ASML Holding NV
-Biomerieux SA
-CaixaBank SA
-Cellnex Telecom SA
-Coloplast A/S
-Compass Group
-Dassault Systemes SA
-Deutsche Telekom
-Diageo PLC
-Edenred SA
-Endeavour Mining
-Experian PLC
-Intesa SanPaolo SpA
-London Stock Exchange
-Lonza Group AG

-L'Oreal SA

It goes without saying, nothing of the above is investment advice. Investors should always do their own research and consult with an advisor. The above can contain fresh ideas and function as a guide for additional research and further exploration.

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My personal research into All-Weather Performers is restricted to ASX-listed companies. My curated lists are 24/7 accessible to paying subscribers:

https://www.fnarena.com/index.php/analysis-data/all-weather-stocks/

More reading:

-https://www.fnarena.com/index.php/2023/04/26/rudis-view-investing-in-megatrends-the-other-ones/

-https://www.fnarena.com/index.php/2023/03/22/rudis-view-all-weather-stocks-back-in-fashion/

Conviction Calls and Best Ideas:

-https://www.fnarena.com/index.php/2023/04/19/rudis-view-bond-market-says-regime-change-is-upon-us/

-https://www.fnarena.com/index.php/2023/04/12/rudis-view-wesfarmers-wisetech-worley/

-https://www.fnarena.com/index.php/2023/03/17/rudis-view-dominos-pizza-newcrest-qantas/

-https://www.fnarena.com/index.php/2023/02/10/rudis-view-aub-group-endeavour-lottery-corp-suncorp/

-https://www.fnarena.com/index.php/2023/02/03/rudis-view-csl-mineral-resources-ridley-readytech/

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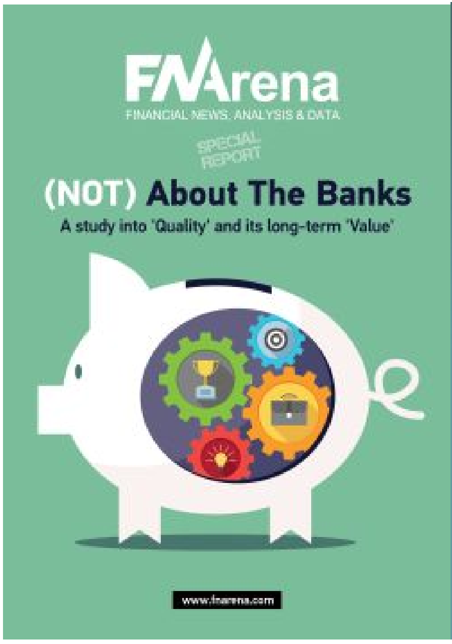

(This story was written on Monday, 1st May, 2023. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions. All views are mine and not by association FNArena's - see disclaimer on the website.

In addition, since FNArena runs a Model Portfolio based upon my research on All-Weather Performers it is more than likely that stocks mentioned are included in this Model Portfolio. For all questions about

this: contact us via the direct messaging system on the website).

RUDI'S VIEWS

Rudi's View: RBA Hikes, US Recession, Portfolio Adjustments

By Rudi Filapek-Vandyck, Editor

This week's "surprise" rate hike by the RBA only further strengthened the view of **Canaccord Genuity Chief investment strategist Tony Brennan** that investors should not misinterpret the April rally in equities as more evidence the worst of central bank tightening and US banking problems is now well and truly behind us.

Brennan has remained firm in his view this year's share market rallies are occurring on borrowed time and more weakness shall follow as market optimism meets the cold hard reality of slowing economic growth and lower corporate profits later in the year.

This week's RBA rate hike, with likely one more to follow, is simply yet more evidence for investors to remain alert and cautious, with Brennan declaring the RBA delivered a reminder of the risks that corporate profit forecasts might be cum further downgrades as economies can decelerate substantially on the lagged impact from central bank tightening.

These risks, suggests Brennan, are currently not incorporated into analyst forecasts or in present share prices.

Canaccord's macro advice has been to move portfolios Underweight equities, both in Australia and internationally, alongside Overweight allocations to fixed income, alternatives and cash. More tightening from the RBA has simply reinforced that position.

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Strategists at Morgan Stanley, equally cautious for quite a long while, fully agree with Canaccord's reasoning. On their assessment, the lagged impact from monetary tightening is only just starting to rear its (ugly) head in Australia. Meanwhile, corporate earnings are still at elevated levels, and so are -generally speaking- share prices.

Not exactly an environment to dial up the risk taking.

In ongoing preparation for what is yet to come, Morgan Stanley's Model Portfolio has made a number of adjustments. Change number one is to move further Underweight domestic banks.

The Model Portfolio also further reduced exposure to A-REITs, while the previous Overweight exposure to Rio Tinto ((RIO)) has now been shifted back to Neutral (in line with the index weight) which resulted in reduced exposure to Metals & Mining. Iluka Resources ((ILU)) has been kicked out and in its place shares were bought in lithium producer Allkem ((AKE)).

Exposures to QBE Insurance ((QBE)), Orica ((ORI)) and the healthcare sector have been increased. Carsales ((CAR)) was added. The percentage held in cash was raised to 4.62%.

Thus far in 2023, the Model Portfolio has performed in line with the index. Most positive contributions came from holdings in Newcrest Mining ((NCM)), James Hardie ((JHX)) and Iluka. Largest negative offsets came via Domino's Pizza ((DMP)), Rio Tinto and Xero ((XRO)).

The Portfolio's largest Overweight positions are in Woodside Energy ((WDS)) and CSL ((CSL)).

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The **Focus Portfolio at Wilsons** has equally undergone a number of changes with the aim of, yet again, trimming risk and diversifying the overall exposure to Australian equities.

Here shares in Santos ((STO)) have been sold and replaced with exposure to Worley ((WOR)), with the portfolio managers observing Worley not only offers enhanced diversification, but also more leverage to the clean energy transition theme.

Wilsons too remains cautious on the outlook for Australian banks, with the Portfolio selling more shares in Westpac ((WBC)), considered the most vulnerable to margin pressures stemming from local mortgages.

Exposure to Telstra ((TLS)) has been increased. Not only is Wilsons positive about the valuation upside within the telco's infra assets, Telstra should also enjoy a positive earnings trajectory that should prove resilient through the cycle.

Wilsons Portfolio is concentrated around the themes of **Quality Cyclicals**, **Structural Growers**, **High Growth** companies and **Defensive Growth**.

Companies representing these exposures are Macquarie Group ((MQG)), James Hardie and Nine Entertainment ((NEC)) for Quality Cyclicals, and Xero and Telix Pharmaceuticals ((TLX)) as High Growth companies.

The basket labeled Structural Growth is populated by Aristocrat Leisure ((ALL)), Pinnacle Investment Managers ((PNI)), NextDC ((NXT)), Netwealth Group ((NWL)), and IDP Education ((IEL)).

For Defensive Growth, Wilsons' Portfolio owns CSL, Insurance Australia Group ((IAG)), Telstra, Lottery Corp ((TLC)), Cleanaway Waste Management ((CWY)), and ResMed ((RMD)).

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Strategists at UBS are equally cautious. Their main conclusion is summarised in the title of this week's post-RBA rate hike strategy update: "RBA may be done with hikes... but equities set to remain in limbo for longer."

UBS thinks equities are now in a trading range and might stay in that range for a while yet.

Among the negatives that keep UBS on the 'safety first' side of the domestic share market:

-Defensive stocks look over-priced. Think Woolworths ((WOW)) and Telstra, suggest the analysts. It is their view most institutions are uncomfortable with the risks surrounding the share market in 2023 and this has led to overcrowding in defensive names which now command large premiums.

-Fund managers on average have reduced their cash levels from excessive levels last year, but cash on average still sits at 3% of portfolios, which remains high and yet again confirms UBS's view investors remain highly sceptical of the economic and market outlook.

-When analysing correlations between stocks it is clear to UBS macro factors continue to overwhelm the micro picture. With stock specific characteristics playing second, if not third fiddle, this makes stock selection for active managers even more challenging than usual.

-All of the above is seen as confirmed through the come-back in general popularity of gold.

Other observations made that deserve to be highlighted include the fact that specific sectors such as traditional media, real estate and transport continue to trade at sizeable discounts to long run average valuations (there's that general scepticism about the outlook again).

Contrary to widespread belief the Australian share market is still relatively cheaply priced, UBS counters when corrected for the distorted weight by a few large cap stocks, underlying an equal-weighted assessment shows the ASX300 is trading near the upper band of its historical range - and at 20% premium to its last 20 years' average.

That's not cheap, declares UBS, that looks expensive.

Countering any too-bearish forecasts for consumer spending, however, UBS finds Australian households still have plenty of excess savings and they intend to lower their spending, but not in a dramatic manner.

But probably the most eye-catching push-back from UBS is against the broad based market view that a pause in RBA tightening will herald a cyclical-led recovery for equities. There is no historical evidence for this to happen, counter the strategists.

Historically, what does happen when the RBA stops hiking, growth stocks outperform value and large caps outperform small caps in the six months post the final rate hike. In addition, UBS's research shows consumer discretionary and real estate stocks underperform during that period.

Sectors that typically outperform post final rate hike are insurance, technology and telecom, and healthcare.

A separate report by **UBS's team of Quant analysts** confirms the strategists' view underlying the share market's rally in April lay predominantly a defensive, less risk taking attitude from investors.

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US strategists at Morgan Stanley also expressed a contrarian view against the ruling expectation there that a final rate hike from the Fed will be great stimulus for US equities. In truth, says Morgan Stanley, this has sometimes been the case in the past, but not when bond yields are inverted. Right now, the US bond market is very much inverted.

"(...) the "post-pause" performance of stocks has varied significantly, depending on whether the yield curve has been inverted. Equity performance has been worse when the Fed has paused with an inverted curve, which is one reason why we are more defensive."

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While strategists at **Citi** have overall kept a more sanguine outlook for equities thus far this year, the team of **mining sector specialists** this week issued somewhat of a disconcerting warning having observed and analysed global earnings and market updates for the March quarter this year.

Not only have indications for earnings generally been weak for the quarter, Citi's analysts have noticed the weakness has been broad-based across the sector with most mining companies updating with weaker operational performances all at the same time; this hasn't happened for at least a few years, on the analysts' observation.

No surprise thus, mining stocks have de-rated across the globe recently. In Australia, market updates by the likes of BHP Group ((BHP)) and Rio Tinto have equally led to reduced forecasts by analysts in subsequent research updates.

Projections by in-house economists at Citi anticipate rolling economic recessions this year and next, which means there's no scenario where negative economic demand hits every major region at the same time. If this proves the case, resilient demand from China might prove essential for the sector.

Citi's mining team believes China's growth story should remain intact, as the domestic economy has become more resilient vis a vis external influences, but the analysts nevertheless believe there are risks of global downside scenarios. For now, they are happy to stick with the view that China will provide a natural 'hedge' for the sector against economic recessions in the US and Europe later this year.

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Macquarie has also conducted its own research into which parts of the Australian share market perform best once the RBA stops hiking interest rates. Past RBA pauses, suggests Macquarie's research, have favoured bond proxies, defensives and large caps.

The research also carries a warning: in the past, equities often have rallied after a pause, but such rallies are typically short-lived.

In the US, Macquarie is positioned for a US recession with each of technology, media and real estate typically underperforming when negative GDP growth shows up.

The broker's **Model Portfolio in Australia** has made a number of adjustments in anticipation there won't be too many more RBA rate hikes, despite this week's "surprise". Elevating the healthcare sector to its largest Overweight, Macquarie's Porfolio has bought extra shares in CSL, "given its record of outperforming after RBA pauses".

Holdings in Goodman Group ((GMG)) and the ASX ((ASX)) have also been increased with both seen as major beneficiaries from falling bond yields. Orora ((ORA)), being a cheap defensive, has been granted a larger weight, and the same goes for Aristocrat Leisure ((ALL)), representing the Quality side of the share market.

Macquarie's Portfolio reduced its stake in Computershare ((CPU)) before this week's FY24 profit warning, while energy companies are considered Late Cycle cyclicals and thus their weight has been reduced too. Macquarie has been selling shares in Woodside Energy and Ampol ((ALD)).

Macquarie seems to agree with UBS's assessment of expensive defensives and has reduced exposure to Woolworths, Lottery Corp, and Steadfast Group ((SDF)).

All in all, Macquarie's view is that we are close to the end of RBA rate hikes, but a recession in the US comes next.

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

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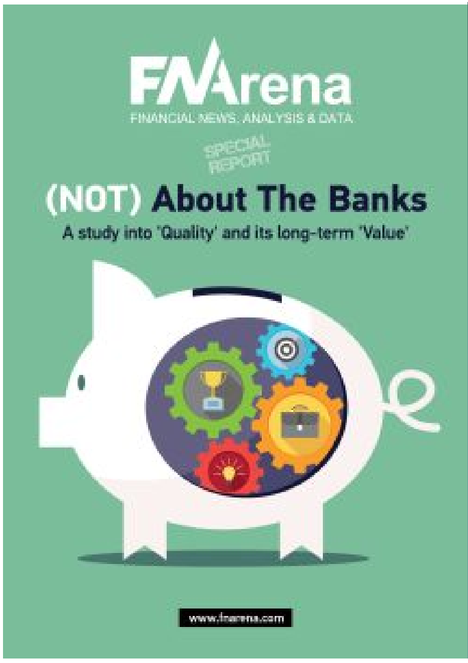

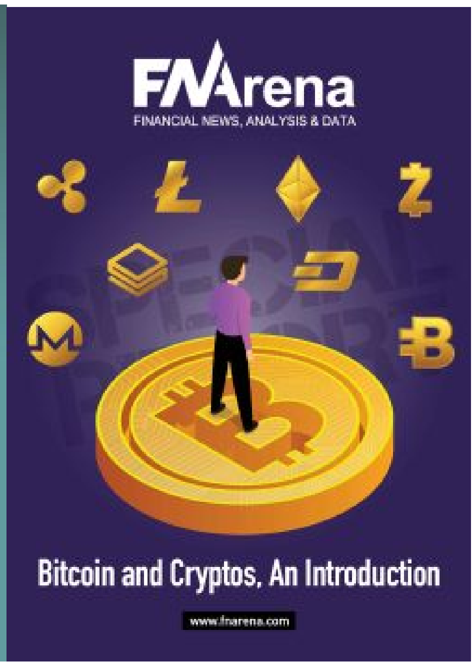

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SMALL CAPS

Artificial Intelligence On The ASX

By Tim Boreham

The artificial intelligence (AI) revolution is shaping up as the most profound technology development since the invention of the internet – and it's naturally one that investors will be discussing with their financial advisors (or, ironically, Chatbot).

Currently, the ASX-listed AI sector can be split between tech providers developing AI tools and non-tech companies – anything from miners to bankers – using AI to improve their existing business.

Plenty of hype and trumped-up claims are emerging, so investors need their old-fashioned BS detectors on a high setting. Even ChatGPT cautions that AI is a relatively new field and "subject to rapid changes and technological disruption, which could impact the performance of AI companies in the future."

One intriguing AI pioneer is **Brainchip Holdings** ((BRN)) which is commercialising Akida, a neuromorphic process to provide and improve data to develop machine learning and AI products.

It's also got something to do with 'spiking neural networks' and good on them – with a $680m market cap investors are convinced about the prospects of the company which is generating some revenue, but also deep losses.

Valued at $1.2bn, **Weebit Nano** ((WBT)) develops "resistive Random-Access Memory technologies which are a specialised form of non-volatile memory for the semiconductor industry."

Weebit has just raised $60m via a placement and "upsized and scaled-back" share purchase plan, so once again there's no shortage of investor confidence.

With a $340m market cap, **Nuix** (NXL) provides investigative analytics and intelligence software with a charter of "finding truth in a digital world".

The truth is out there - but in the zeros and ones rather than at a Roswell UFO convention.

At the sub $100m market cap end, how do investors leverage a theme that – as with the dial-up internet - is likely to evolve over time?

The company behind much of the broadcast captioning both here and the US, **AI Media** ((AIM)) uses extensive AI to enable seamless translation, even if the speaker is a Russian crime boss with a dodgy accent.

The company is transitioning customers from its old iCap product to its AI-driven platform called Lexi. The key difference? Lexi doesn't need a human with a familiar voice to repeat the words into a speech recognition program.

According to founder and CEO Abrahams, the way audio is delivered into a speech recognition program is a "massive determinant" of the accuracy of the caption. "We will mic up a commentators booth with isolated audio and no background noise," he says.

The company has dozens of automated speech recognition engines, selected according to the accent or language and the type of setting (such as a horse race versus a news broadcast).

AI Media reported flat revenue of $29.7m for the half year to December 2022. But earnings before interest, tax depreciation and amortisation (ebitda) was $1.4m, partly the result of upgrading customers to Lexi.

AI Media's customers include Foxtel, Al Jazeera, SBS, Google, Channel Seven and Major League Soccer.

The company also won contracts for the cities of San Francisco, Austin and Baltimore and is eyeing expanded opportunities in parliaments and court rooms.

On a same-but-different note, **Straker Translations** ((STG)) is using the most advanced AI to clean up the hitherto error-ridden and unintentionally amusing machine-driven efforts that are still evident on Google Translate.

Rather than slavishly and literally translating word by word, AI tools can understand tone and complex sentence structures.

They can even understand slang and jokes, although they are not at the point of being able to crack one. And we're sure the Kiwi-based Straker's platform can differentiate its Toms from its Tums.

By any translation, Straker has been having a tough time because of sluggish global economic conditions. Last year the company launched cost cutting drive, eliminating -15% of its global workforce (now 225 full-time equivalents).

The results of the tidy-up are becoming apparent, with the company last week reporting fourth (March) quarter positive cash flow of NZ$1.7m. Full year revenue was 6% higher at NZ$59.4m, with NZ$1.4m of 'adjusted ebitda' compared with NZ$200,000 previously.

Another exemplar of the practical uses of AI is the $10m market cap security monitoring house **Icetana** (ICE), which uses machine learning to filter out routine motion on a camera image. As a result, only the suspicious activities are brought to the attention of the monitors.

The company's guiding concept principle is YOLO – as in 'you only look once'.

Icetana has contracts covering 60 sites on five continents. Last month the company renewed a contract with a Middle East shopping centre owner, covering 16 malls and 8000 cameras for the next three years.

Icetana last week reported a March (third) quarter receipts of $406,000 and cash outflows of -$605,000, with a meagre cash balance of $1.4m. Cut another way, annual recurring revenue of $1.6m was 12% stronger than a year previously.

Meanwhile, the $80m cap **Acusensus** ((ACE)) operates road traffic cameras to detect illegal mobile usage and non-seat belt wearing.

While the company's smarts relate more to the type and positioning of the cameras, it is harnessing AI to widen its applications to other road safety measures. One example is the early, real-time detection of drivers likely to be drug affected, based on tell-tale signs such as lane swerving.

Acusensus has reported March (third) quarter revenue of $10.9m, 12.5% higher year on year with positive cash flow of $2.6m.

Management has upped its full-year revenue forecast to "at least" $40m, which compares with the estimated $37m ahead of last January's IPO. The number is also 39% up on the previous year's turnover.

The Acusensus units add to the estimated one billion security cameras in the world – or more than one for every eight inhabitants of the planet.

That sounds pretty creepy, but victims of muggings or road accidents might think differently.

Disclaimer (courtesy of Chatbot): AI is a relatively new field and is subject to rapid changes and technological disruption, which could impact the performance of AI companies in the future. Additionally, the stock market can be unpredictable, and it's always possible that a company's performance may not meet expectations.

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SMSFUNDAMENTALS

SMSFundamentals: Factor Investing Explained

SMSFundamentals is an ongoing feature series dedicated to providing SMSF trustees with valuable news, investment ideas and services, in line with SMSF requirements and obligations.

For an introduction and story archive please visit FNArena's SMSFundamentals section on the website.

How Factor Investing Can Enrich A Portfolio's Potential

Global markets are dynamic and complex making it challenging to understand what specifically drives investment portfolio returns.

Identifying and leveraging key factors can help investors generate competitive returns, reduce risk, and improve diversification.

Embracing the power of factors can be a game changer for investors seeking to achieve their financial goals.

-Factors are the fundamental building blocks that drive returns across different types of assets in a portfolio
-Macroeconomic and style factors play crucial roles in making portfolios more manageable, less volatile, and better diversified
-Factor-based strategies can be used to select securities that align with specific investment objectives and risk tolerances, but each strategy carries its own set of related risks

By Anuj Sharma

What Are Factors and Factor-Investing?

Factors are like the DNA of investing, providing the fundamental building blocks that drive returns across different types of assets.

"Quality" is a basic example of one factor that exists in the suite of companies; those with vigorous fundamentals.

By investing in a portfolio of quality stocks, an investor can potentially capture excess returns while reducing risk due to their stability and resilience during market downturns.

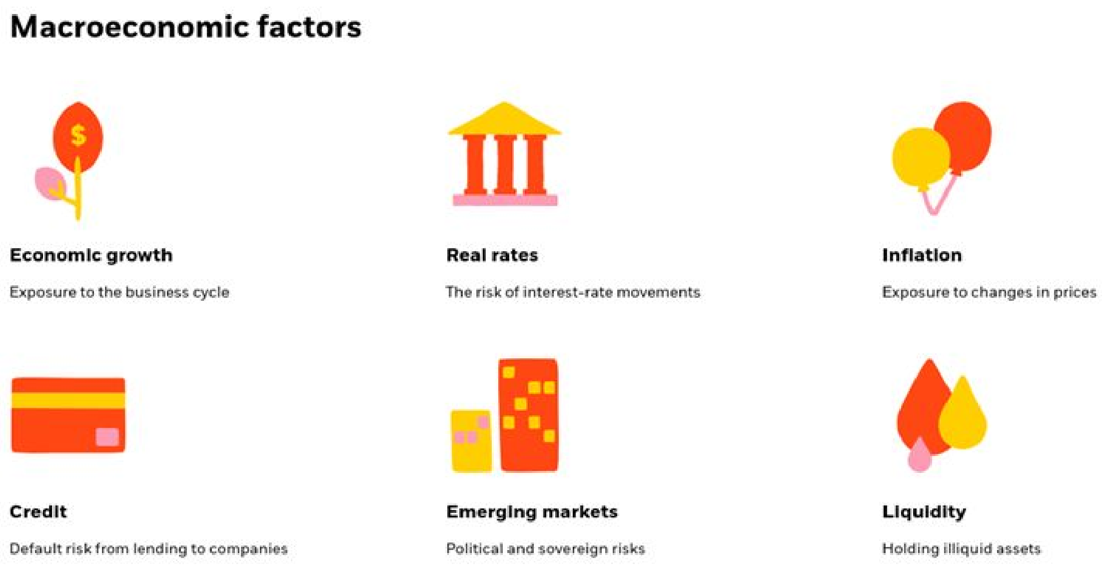
Factor investing is an approach inclined towards an effective portfolio configuration based on specific factors that influence returns across different asset classes.

By concentrating on these factors, portfolios can become better optimised.

Types of Factors

Investment returns are like a puzzle, where macroeconomic and style factors are the pieces that fit together to form a complete picture.

Macroeconomic factors provide an overview of the risk across asset classes, while style factors illustrate the risks within the asset class.

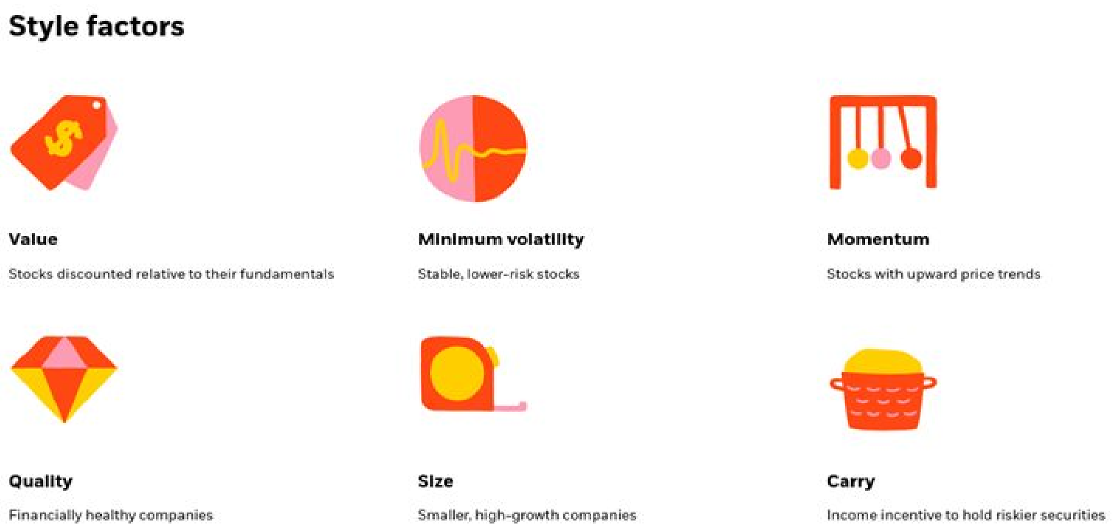


Source: Blackrock.com

One of significant macroeconomic factors is economic growth, which links to the business cycle, while real rates determine the risk of interest-rate fluctuations.

Inflation affects investors' exposure to commodity prices, and credit risks come from lending to companies.

Additionally, investing in emerging markets carries specific economic, political, and sovereign risks, with liquidity crucial to avoiding challenges emerging from a liquidity crunch.



Source: Blackrock.com

Style factors play a crucial role in asset classes. The value factor identifies undervalued stocks based on fundamentals, while the minimum volatility factor looks for lower-beta stocks with stable price movement.

The momentum factor considers stocks with bullish predominance, and the quality factor prioritises financially robust and progressive companies.

Size is essential, as smaller, high-growth companies offer unique opportunities, and the carry factor incentivises holding riskier securities by providing income.

After knowing about the types of factors, let's look at how different factor-based strategies work.

<u>Factor-Based Strategies and Related Risks</u>

Factor-based strategies are used to select securities that align with specific investment objectives and risk tolerances.

Strategies Based on Macroeconomic Factors

One such strategy is the **economic growth factor-based strategy**, which involves selecting stocks of companies expected to benefit from economic expansion.

Such companies typically operate in industries such as technology, consumer discretionary, or industrial sectors.

This strategy can be sensitive to changes in the business cycle, geopolitical risks, and market volatility.

Another strategy is the **real rate factor-based strategy**, which selects securities more resilient to changes in real interest rates.

These companies typically operate in industries such as utilities, real estate, or infrastructure, which provide stable cash flows and can provide inflation protection.

This strategy can be sensitive to changes in interest rates and macroeconomic conditions.

Additionally, investors can also use the **inflation factor-based strategy**, which selects securities more resilient to changes in prices and inflation rates.

Companies in industries such as healthcare, utilities, or energy have historically performed well during inflationary periods.

This strategy can be sensitive to changes in macroeconomic conditions, interest rates, and commodity prices.

The **credit factor-based strategy** focuses on selecting securities with a lower default risk from lending institutions.

This strategy requires selecting companies with a history of timely payments, strong credit ratings, and a low level of debt.

This strategy can be sensitive to changes in interest rates, economic conditions, and market volatility, which can impact the default risk of these securities.

The **emerging markets factor-based strategy** involves selecting stocks of companies operating in developing countries with the potential for higher economic growth and returns.

This strategy can be sensitive to political and sovereign risks, such as regulatory changes, corruption, and instability.

The **liquidity factor-based strategy** focuses on selecting highly liquid and easily tradable securities in the market.

This strategy requires picking large-cap stocks that are frequently traded and have a high trading volume.

This strategy can be less diversified and potentially carry higher transaction costs.

Strategies Based on Style Factors

The **value factor-based strategy** is a timeless approach that involves seeking out stocks that are undervalued in comparison to their fundamentals.

Investors using this approach look for stocks with a low price-to-earnings or price-to-book ratio.

Investors must be careful not to fall into the illusion of investing in a stock that has become undervalued due to poor company fundamentals.

In contrast, the **minimum volatility factor-based strategy** focuses on less risky securities than the overall market.

The approach involves selecting stocks with low beta values or low volatility in their historical returns.

Minimum volatility-based factor strategies can be more sensitive to market changes and may not always protect in all market conditions.

The **momentum factor-based strategy** focuses on securities that have shown upward price trends in the past and are expected to continue the “momentum”.

Investors using this approach look for stocks that have outperformed their peers over a specific period.

This approach has risks, such as overreliance on historical data and potential market inefficiencies.

The **quality factor-based strategy** focuses on financially healthy companies with a history of solid earnings, high profitability, and low debt-to-equity ratios.

This approach explores stocks with consistent revenue growth, strong cash flow, and a high return on equity.

Investors should be aware: even quality-based factor strategies are not immune to market risks.

The **size factor-based strategy** requires selecting smaller, high-growth companies with the potential for rapid expansion and higher returns.

This approach carries a higher risk due to the smaller size and potentially less established nature of these companies.

The carry factor-based strategy filters out securities that offer a higher yield or income incentive to hold riskier securities.

This approach focuses on selecting high-yield bonds or dividend-paying stocks to generate steady income.

Carry-based factor strategies can be more sensitive to interest rate changes and other macroeconomic factors, leading to increased volatility and risk.

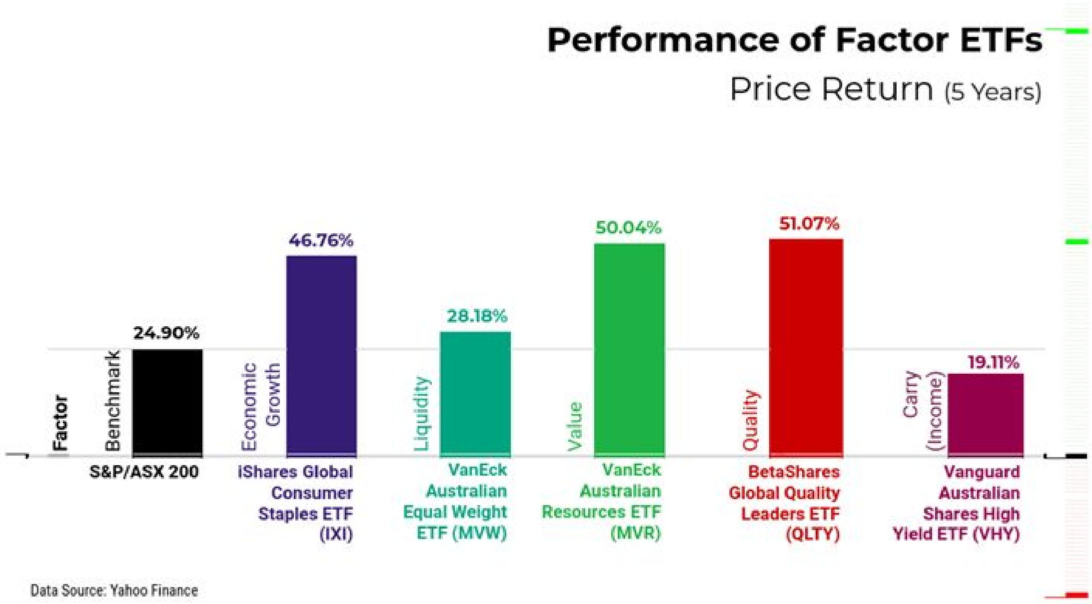
ETFs (exchange-traded funds) are primary investment vehicles to implement a factor investing strategy globally.

In general, factor ETFs can provide investors with exposure to specific investment factors such as value, growth, quality, inflation, credit, emerging markets, momentum, and low volatility.

Performance of Factor ETFs

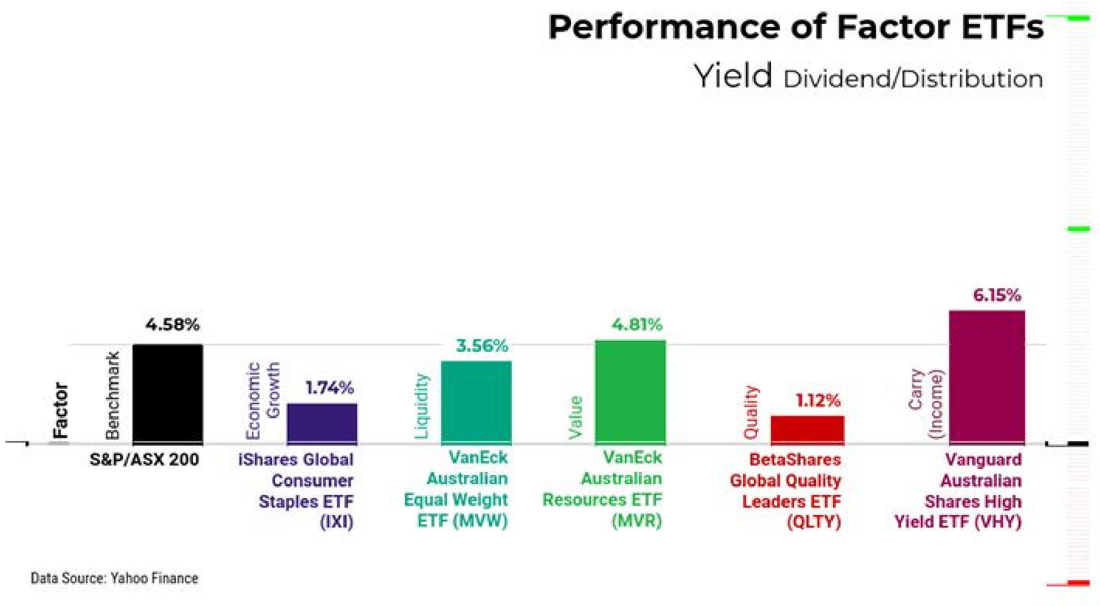
The performance of factor ETFs depends on the specific factors being targeted as well as dominant market conditions.

The performance of factor ETFs can be compared with benchmark indices like the S&P/ASX200.



Interestingly, based on the price return over the last 5-years, several factor ETFs have demonstrated their efficiency to outperform or managed to perform closely to the benchmark.

For instance, the iShares Global Consumer Staples ETF (IXI), targeting the factor of economic growth, has delivered a 46.76% price return, outperforming the ASX200's 24.90% price return during the last five years.



Additionally, the Vanguard Australian Shares High Yield ETF (VHY), targeting the factor of carry (income), is delivering a yield of 6.15%, outperforming the ASX200's 4.58% dividend yield.

Myths Attributed to Factor Investing

Factor investing, a popular investment strategy that identifies and leverages specific market factors to generate returns, has become a vital topic in recent years.

Despite its benefits, there are several myths that investors must be aware of before implementing this strategy.

One common myth is that factor investing is a sure-fire way to outperform the market.

While it can potentially generate excess returns, it's not guaranteed, as factors can go through prolonged periods of lagging returns.

While factor investing is often viewed as a passive investment strategy, instead it requires active management.

Another myth is that factor investing is a one-size-fits-all solution.

Different factors perform differently in different market environments. Investors must carefully choose which factors align with their investment objectives and risk tolerance.

Also, Factor investing is also not immune to market downturns.

Many factors can suffer simultaneously, leading to significant draw downs. Investors must continuously monitor and rebalance their portfolio to ensure it remains aligned with their target factors.

Finally, investors must be aware of the risks associated with overcrowding in prevalent factors and the challenges of implementing factor strategies, including index construction, data quality, and trading costs.

Conclusion

In conclusion, factor investing has emerged as a powerful investment approach that can help investors generate returns, reduce risk, and improve diversification.

By identifying key factors that drive returns across different asset classes, investors can build a well-balanced and diversified portfolio that can weather market volatility and economic uncertainty.

A nuanced understanding of macroeconomic and style factors is essential to achieving investment success.

Technical limitations

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.

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TREASURE CHEST

Treasure Chest: ResMed’s Benevolent Monopoly

FNArena's Treasure Chest reports on money making ideas from stockbrokers and other experts. Today’s idea is on ResMed

Whose idea is it?

Analysts at Wilsons.

The Subject:

Sleep and respiratory care device manufacturer ResMed ((RMD)).

By Greg Peel

ResMed’s March quarter earnings report, released last Friday morning (Sydney time), featured very strong device sales, particularly in North America, as the company was no longer restricted in its ability to supply the US market with cloud-connected devices.

However, brokers were slightly disappointed the boost in sales came at the expense of the gross margin, due to the sales-mix shifting towards lower margin devices and higher component costs, with higher device prices only partially offsetting.

But for stock broker Wilsons, “Short termism on the stock, bemoaning the gross margin impact of success, misses the point”.

Investors should take advantage while the market underestimates the permanence of what has happened in the US sleep market over the past 12 months, Wilsons believes. The situation is “without precedent” and therefore difficult for many to accept but the sleep apnoea device market is operating as a “benevolent monopoly” and no one, except rival Philips, really minds.

In June 2021 Dutch-headquartered Philips was forced to recall its own competitive sleep device due to potential health risks, giving ResMed a leg-up in market share. Brokers have been speculating on Philips’ return to the market ever since, yet that timeline seems to be constantly pushed out.

“Make no mistake,” says Wilsons, Philips is indelibly marked and US Federal Drug Administration will keep going after the company. ResMed would not be rapidly growing quarterly flow generator sales in the Americas unless “rusted on” Philips customers have switched.

In cloud-connected medical technology, “hard won share” is so often permanent share, the broker points out, because it entails system changes to make the switch.

Which is why Wilsons is not the least concerned with gross margins. The broker has an Overweight rating on the stock with a $37.76 target.

<u>More Info:</u>

Despite “bemoaning” the contraction in margins, FNArena database brokers remain net positive on ResMed, offering four Buy or equivalent ratings, including an upgrade to Accumulate from Hold from Ord Minnett, and one Hold, for a consensus target of $38.00, up from $35.98 pre-result.

Brokers remain a little cautious on Philips returning to the market, but ResMed continues to expect devices sales to be sequentially higher throughout 2023, and as the supply chain situation continues to improve, the March quarter should be the bottom for the gross margin.

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 28-04-23

By Mark Woodruff

Guide:

The FNArena database tabulates the views of eight major Australian and international stockbrokers: Citi, Bell Potter, Macquarie, Morgan Stanley, Morgans, Ord Minnett, Shaw and Partners and UBS.

For the purpose of broker rating correlation, Outperform and Overweight ratings are grouped as Buy, Neutral is grouped with Hold and Underperform and Underweight are grouped as Sell to provide a Buy/Hold/Sell (B/H/S) ratio.

Ratings, consensus target price and forecast earnings tables are published at the bottom of this report.

Summary

Period: Monday April 24 to Friday April 28, 2023
Total Upgrades: 8
Total Downgrades: 5
Net Ratings Breakdown: Buy 57.90%; Hold 33.23%; Sell 8.87%

For the week ending Friday April 28 there were eight upgrades and five downgrades to ASX-listed companies by brokers in the FNArena database.

As can be seen in the tables below, the number of companies receiving material downgrades to forecast earnings far outweighed significant upgrades.

Twelve-month average target prices also suffered to a greater extent, led by a -25% fall for Synlait Milk's target in the wake of a downgrade to profit guidance.

Management is now expecting FY23 profit in the range of -$5m to $5m, down from the $15-25m range set on March 17 when another material downgrade occurred. Management attributed the current downgrade to lesser demand for Advanced Nutrition, as well as additional financing and supply chain costs.

While Bell Potter observed the stock is now in a three-year earnings downgrade cycle and not without risk, material operating leverage beyond FY23 is achievable.

The broker noted such leverage would require delivery of acceptable returns on the new Pokeno nutritionals customer, a successful navigation by a2Milk Co of the new registration process for China label infant milk formula products, and the addition of new base powder customers.

Operating risks and debt remain high, likely limiting short-term gains, though UBS highlighted the company's long-run pre-tax return on investment capital of more than 12%, and retained its Buy rating, while also lowering its target to NZ$3.95 from NZ$4.30.

Brokers also reduced the average target price for Airtasker after a third quarter trading update missed expectations. Morgan Stanley noted the company remains unprofitable and free cash flow-negative and doesn't expect a turnaround for these metrics until the end of FY25.

Management announced a cost-out program, which includes a -20% reduction in headcount, along with the future exit of non-core businesses acquired as part of the OneFlare transaction.

While Buy-rated Morgans assessed a resilient third quarter performance by Airtasker in the current macroeconomic backdrop, core gross marketplace volume was weaker than expected. The broker's target fell to 60c from 80c partly owing to the use of a lower multiple by the analyst due to the ongoing de-rating of peers and the sector.

While previewing third quarter results for News Corp, Macquarie slashed its target to $23 from $34, thereby dragging down the average target in the FNArena database by just over -11%, to $28.67.

The company experienced a softer advertising market performance in the second quarter, which the analyst now expects will worsen. It's anticipated advertising market facing businesses across Dow Jones, News Media and subscription video services will record ad revenue declines of between -10-15% year-on-year.

While a breakup scenario could be a positive for the company, the broker felt earnings will continue to negatively weigh on the share price in the near term.

Both Synlait Milk (second) and Airtasker (seventh) also appeared on the list of companies that experienced the largest percentage falls in forecast earnings by brokers last week.

First position was attained by Mincor Resources with a very large percentage fall in forecast earnings, somewhat exaggerated by the small numbers involved.

Nickel production in the March quarter was below Bell Potter's forecast as a result of previously flagged off-specification ore production and lower metallurgical recoveries.

The board has unanimously recommended shareholders accept the takeover offer by Wyloo Metals ((WYL)) in the absence of a superior proposal, in response to risks from ongoing ramp-up issues. A competing offer appears increasingly unlikely to the broker given Wyloo has acquired a controlling interest (51.2%) as of April 21.

Earnings forecasts were also lowered by brokers for Regis Resources. While group production and lower guidance were pre-released, third quarter results provided details on the operational issues which impacted all sites.

Morgan Stanley noted production suffered during the quarter amid challenges from the weather, as well as limited fleet availability and productivity problems.

However, the company's average target price actually rose, and Morgans even raised its rating to Add from Hold for a number of reasons including a positive outlook for production in the fourth quarter. There's also thought to be potential for large cap gold miner takeovers/consolidation.

Star Entertainment was next after a surprise downgrade to FY23 earnings guidance. This came after a deterioration in the revenue environment which has created balance sheet risks, causing Macquarie to downgrade its rating to Neutral from Outperform and lower its target to $1.35 from $1.65.

Management outlined cost cutting initiatives along with a strategic review of Star Sydney and the balance sheet. Macquarie feels the company should be able to negotiate debt covenant relief, which likely only relates to interest coverage.

Karoon Energy and Mineral Resources also feature in the earnings downgrade table below. Please refer to the Broker Call Report (or Stock Analysis) on the FNArena website for further details.

On the flipside, Helloworld Travel was the outstanding winner last week, measured by percentage increase in both average target price and forecast earnings, after releasing third quarter results.

The EBITDA margin achieved was the highest Ord Minnett has seen globally for a mainly business-to-consumer bricks and mortar travel agency business.

The margin of 30.4% is now well ahead of pre-covid levels, notes Morgans, which reflects the efficiency derived from new technology, structural cost-out and more employee annual leave.

Management again upgraded FY23 earnings guidance by around 33% to $38-42m from $28-32m. Despite these positives, Ord Minnett downgraded its rating to Lighten from Hold after a 58% share price rally in the last three months.

Shaw and Partners described the upgrade to guidance as "massive" and noted potential for another upgrade, given travel is rapidly expanding month on month, and restrictions have been removed across most destinations and inbound arrivals to Australasia.

BlueScope Steel received the second largest percentage increase in forecast earnings last week, after a 43% upgrade to earnings guidance.

According to Ord Minnett, new guidance is mainly being driven by improved steel prices and hot rolled coil spreads in the US, where the company's North Star mini mill operates.

BlueScope's second half should also benefit, according to the broker, from improved realised margins in the North American steel coated products businesses, and stronger realised prices in the Australian Steel Products business.

Total Buy recommendations comprise 57.90% of the total, versus 33.23% on Neutral/Hold, while Sell ratings account for the remaining 8.87%.

Upgrade

APM HUMAN SERVICES INTERNATIONAL LIMITED ((APM)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 3/0/0

Ord Minnett upgrades its rating for APM Human Services International on valuation after a steady recent share price decline.

The broker leaves its forecasts unchanged and retains its $2.80 target price.

CAMPLIFY HOLDINGS LIMITED ((CHL)) Upgrade to Buy from Accumulate by Ord Minnett .B/H/S: 2/0/0

Camplify Holdings' March-quarter revenue sharply outpaced Ord Minnett's forecasts after rising 204% thanks to strong average booking values.

The broker sheets this back to strong category growth post covid, market dominance, and a rising preference for cost-effective holidays.

The broker says the company is building a strong presence in the peer-to-peer RV rental segment, and appreciates the company's positive cash flow and strong balance sheet. EPS forecasts rise across the board.

Rating rises to Buy from Accumulate. Target price rises to $2.60 from $2.11.

CYCLOPHARM LIMITED ((CYC)) Upgrade to Buy from Hold by Bell Potter .B/H/S: 1/0/0

The US Federal Drug Administration (FDA) has advised Cyclopharm that its response is complete and that the company will be eligible for review; and has set a potential approval date of September 29, 2023.

Bell Potter estimates the market for Cyclopharm's Technegas at US$180m. The broker sounds miffed about the last approval delay, which the FDA claimed was based on a lack of safety and efficacy data, while Cyclopharm pointed out that the Complete Response Letter did not relate to such, not to mention the tens of thousands of doses already being delivered to patients outside the US each year, says the broker.

Meanwhile, Bell Potter claims the nuclear medicine community in the US is champing at the bit to get started and observes the company is well capitalised to start the launch.

Rating upgraded to Buy from Hold. Target price rises to $2.80 from $1.70.

NEWCREST MINING LIMITED ((NCM)) Upgrade to Accumulate from Hold by Ord Minnett .B/H/S: 2/4/0

Ord Minnett notes commodity prices have generally been less volatile so far in 2023. In line with a higher indicative offer for Newcrest Mining from Newmont, the broker raises its target price to $33 and as a result upgrades to Accumulate from Hold.

See also NCM downgrade.

RIO TINTO LIMITED ((RIO)) Upgrade to Hold from Lighten by Ord Minnett .B/H/S: 1/4/1

Rio Tinto's March-quarter result appears to have pleased Ord Minnett, thanks to strong iron-ore shipments. The broker observes that the company's share of Pilbara iron ore shipments grew 16% on the previous March quarter thanks to higher production and inventory drawdowns.

Ord Minnett now suspects its forecasts may be a tad conservative should production remain elevated but holds its ground for now, expecting a decline in 2023 copper production and awaiting further signs on iron-ore demand.

Meanwhile, aluminium, alumina and bauxite production missed the broker's forecasts. Rating upgraded to Hold from Lighten. Target price is steady at $107.

REGIS RESOURCES LIMITED ((RRL)) Upgrade to Add from Hold by Morgans .B/H/S: 3/2/1

Despite a soft 3Q for Regis Resources with production and costs missing Morgans forecasts, the broker raises its rating to Add from hold and increases its target to $2.51 from $1.91.

These changes are due to a positive outlook for 4Q production, approval at the McPhillamys Gold project and the potential for large cap gold miner takeovers/consolidation, explains the analyst.

The McPhillamys project is risked to 40% from 20% by the broker as a result of regulatory approval by NSW's Independent Planning Commission.

Management revised FY23 guidance with production expected between 450koz-470koz at an all-in sustaing cost (AISC) of $1,795/oz - $1,845/oz.

RELIANCE WORLDWIDE CORP. LIMITED ((RWC)) Upgrade to Neutral from Sell by Citi .B/H/S: 3/3/0

On Citi's calculations, Reliance Worldwide's March quarter is tracking over 10% higher than consensus second half expectations.

Growth above the market took market share to record levels and the broker was surprised at the muted share price response to the update.

After a period of underperformance, Citi upgrades to Neutral form Sell. Near term the broker sees a strong combination of sales momentum and declining input costs.

But Citi is cautious in capitalising these historically high levels of above market growth, as there is currently limited clarity on drivers or sustainability. Target rises to $4.10 from $3.00.

XERO LIMITED ((XRO)) Upgrade to Buy from Neutral by UBS .B/H/S: 4/1/1

UBS envisages scope for cash flow to surprise over the medium term.

The broker suspects the market is being too conservative and forecasts underlying free cash flow growing to $339m by FY26. Options should emerge in North America from the targeted strategy and open banking catalysts.

Growth in the core business is expected to continue, despite efficiency initiatives. UBS upgrades Australasian net subscriber additions from an average of 89,000 per annum to 246,000 over FY23-26.

Rating is upgraded to Buy from Neutral and the target raised to $109.00 from $90.85.

<u>Downgrade</u>

HELLOWORLD TRAVEL LIMITED ((HLO)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 2/0/0

Ord Minnett highlights a 3Q revenue margin of 7.7% and an earnings (EBITDA) margin of 30.4%, which are the highest achieved by Helloworld Travel, to the best of the broker's knowledge.

What's more, the earnings margin is the highest the analyst has seen globally for a mainly business-to-consumer bricks and mortar travel agency business.

Management has, again, upgraded FY23 earnings guidance to $38-42m from $28-32m.

Ord Minnett raises its target to $2.62 from $2.08 and lowers its rating to Lighten from Hold after a 58% share price rally in the last three months.

NEWCREST MINING LIMITED ((NCM)) Downgrade to Hold from Add by Morgans .B/H/S: 2/4/0

Morgans assesses Newcrest Mining is on-track to deliver FY23 guidance after posting steady gold and copper production during the 3Q.

The broker believes the Newcrest share price will continue to trade at a discount to the Newmont takeover price to reflect significant time to implementation.

The rating falls to Hold from Add on valuation, while the target rises to $25.80 from $25.70.

See also NCM upgrade.

STEADFAST GROUP LIMITED ((SDF)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 1/2/0

Key findings by Macquarie in an analysis of the Australian broker M&A market are the doubling of resourcing for insurance brokers over the last three years, while three new competitors have also entered the local market.

The broker undertook this analysis as the M&A pipeline has been a major contributor to EPS growth for Australian listed insurance brokers over recent years. It's was concluded there is minimal accretion for the brokers with acquisition multiples at current levels.

Given lower returns, the analyst finds having public targets for the Trapped Capital initiative may not be in Steadfast Group's best interest over the medium term.

The initiative provides the company's network brokers the opportunity to unlock trapped capital by partial sale to Steadfast.

The rating for Steadfast Group is downgraded to Neutral from Outperform and the target falls to $6.30 from $6.50.

SANDFIRE RESOURCES LIMITED ((SFR)) Downgrade to Accumulate from Buy by Ord Minnett .B/H/S: 3/3/0

Stronger third quarter production and costs at DeGrussa offset lower production and higher costs at the Matsa operations, explains Ord Minnett, which raises its target price for Sandfire Resources to $7.50 from $7.45.

Management increased FY23 guidance for zinc by 7%, while CI costs and sustaining capital spend guidance was adjusted by 3% and -6%, respectively.

The broker's rating falls to Accumulate from Buy after a significant share price rally since March 10, and due to standard commissioning risk at Motheo. Despite this downgrade, the analyst still sees upside on exploration upside at both Matsa and Motheo.

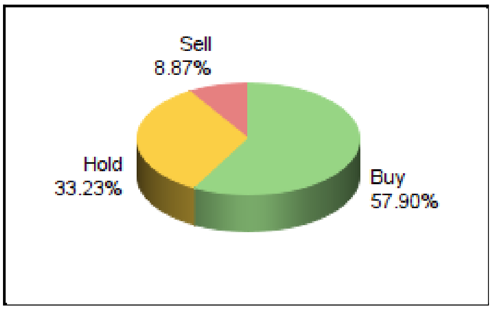
STAR ENTERTAINMENT GROUP LIMITED ((SGR)) Downgrade to Neutral from Outperform by Macquarie .B/H/S: 2/1/0

A deterioration in Star Entertainment's revenue has caused Macquarie to re-evaluate its numbers. The broker remains comfortable with the leverage ratios and expects the company can negotiate covenant relief.

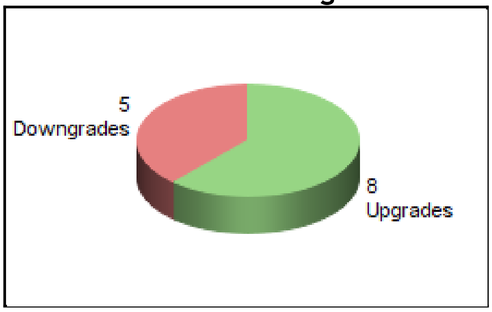
The company has provided a trading update and outlined cost cutting initiatives along with a strategic review of Star Sydney and the balance sheet.

The "ultimate debate", in the broker's view, is around the asset value of the integrated resorts. Macquarie does not envisage enough margin of safety and downgrades to Neutral from Outperform. Target is lowered to $1.35 from $1.65.

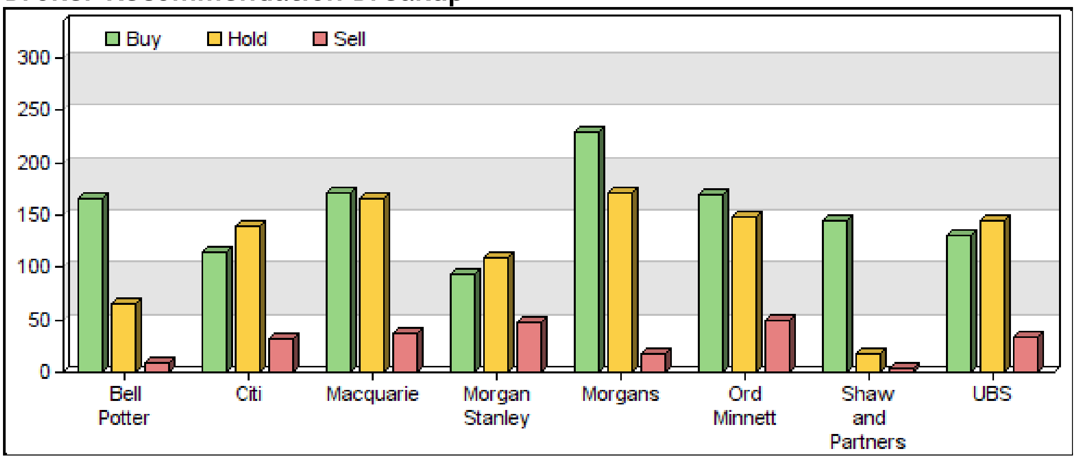
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				

1	APM HUMAN SERVICES INTERNATIONAL LIMITED	Buy	Buy	Ord Minnett
2	CAMPLIFY HOLDINGS LIMITED	Buy	Buy	Ord Minnett
3	CYCLOPHARM LIMITED	Buy	Neutral	Bell Potter
4	NEWCREST MINING LIMITED	Buy	Neutral	Ord Minnett
5	REGIS RESOURCES LIMITED	Buy	Neutral	Morgans
6	RELIANCE WORLDWIDE CORP. LIMITED	Neutral	Sell	Citi
7	RIO TINTO LIMITED	Neutral	Sell	Ord Minnett
8	XERO LIMITED	Buy	Neutral	UBS
Downgrade				
9	HELLOWORLD TRAVEL LIMITED	Sell	Neutral	Ord Minnett
10	NEWCREST MINING LIMITED	Neutral	Buy	Morgans
11	SANDFIRE RESOURCES LIMITED	Buy	Buy	Ord Minnett
12	STAR ENTERTAINMENT GROUP LIMITED	Neutral	Buy	Macquarie
13	STEADFAST GROUP LIMITED	Neutral	Buy	Macquarie

Target Price

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	HLO	HELLOWORLD TRAVEL LIMITED	3.160	2.740	15.33%	3
2	RWC	RELIANCE WORLDWIDE CORP. LIMITED	4.165	3.858	7.96%	6
3	RMS	RAMELIUS RESOURCES LIMITED	1.477	1.383	6.80%	3
4	ACF	ACROW FORMWORK AND CONSTRUCTION SERVICES LIMITED	1.037	0.977	6.14%	3
5	RRL	REGIS RESOURCES LIMITED	2.405	2.272	5.85%	6
6	GOR	GOLD ROAD RESOURCES LIMITED	2.088	1.975	5.72%	4
7	BSL	BLUESCOPE STEEL LIMITED	21.620	20.740	4.24%	5
8	XRO	XERO LIMITED	92.617	89.592	3.38%	6
9	SGP	STOCKLAND	4.410	4.274	3.18%	5
10	DOW	DOWNER EDI LIMITED	4.167	4.050	2.89%	3

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	SM1	SYNLAIT MILK LIMITED	1.900	2.550	-25.49%	3
2	ART	AIRTASKER LIMITED	0.450	0.517	-12.96%	3
3	NWS	NEWS CORPORATION	28.667	32.333	-11.34%	3
4	SGR	STAR ENTERTAINMENT GROUP LIMITED	1.580	1.680	-5.95%	3
5	A2M	A2 MILK COMPANY LIMITED	5.710	6.030	-5.31%	6
6	CNI	CENTURIA CAPITAL GROUP	2.093	2.193	-4.56%	4
7	DRR	DETERRA ROYALTIES LIMITED	4.670	4.863	-3.97%	5
8	MIN	MINERAL RESOURCES LIMITED	92.857	96.557	-3.83%	7
9	ABC	ADBRI LIMITED	1.688	1.750	-3.54%	4
10	IFL	INSIGNIA FINANCIAL LIMITED	3.675	3.800	-3.29%	4

Earnings Forecast

Positive Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	HLO	HELLOWORLD TRAVEL LIMITED	10.633	5.533	92.17%	3
2	BSL	BLUESCOPE STEEL LIMITED	247.680	221.180	11.98%	5
3	WDS	WOODSIDE ENERGY GROUP LIMITED	286.506	266.843	7.37%	6
4	SFR	SANDFIRE RESOURCES LIMITED	-14.166	-15.194	6.77%	6
5	RWC	RELIANCE WORLDWIDE CORP. LIMITED	25.454	24.277	4.85%	6
6	ACF	ACROW FORMWORK AND CONSTRUCTION SERVICES LIMITED	9.833	9.467	3.87%	3
7	AIA	AUCKLAND INTERNATIONAL AIRPORT LIMITED	8.828	8.535	3.43%	5
8	HMC	HMC CAPITAL LIMITED	21.525	20.875	3.11%	4
9	BKW	BRICKWORKS LIMITED	359.350	350.220	2.61%	6

10	CNI	CENTURIA CAPITAL GROUP	14.300	14.000	2.14%	4

Negative Change Covered by at least 3 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	MCR	MINCOR RESOURCES NL	-4.600	0.100	-4700.00%	3
2	SM1	SYNLAIT MILK LIMITED	1.155	13.191	-91.24%	3
3	RRL	REGIS RESOURCES LIMITED	1.700	3.117	-45.46%	6
4	SGR	STAR ENTERTAINMENT GROUP LIMITED	1.733	2.600	-33.35%	3
5	KAR	KAROON ENERGY LIMITED	48.176	60.673	-20.60%	4
6	MIN	MINERAL RESOURCES LIMITED	528.133	664.917	-20.57%	7
7	ART	AIRTASKER LIMITED	-2.233	-2.000	-11.65%	3
8	NST	NORTHERN STAR RESOURCES LIMITED	32.220	36.060	-10.65%	6
9	NIC	NICKEL INDUSTRIES LIMITED	19.272	21.546	-10.55%	3
10	APM	APM HUMAN SERVICES INTERNATIONAL LIMITED	17.967	19.967	-10.02%	3

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WEEKLY REPORTS

Uranium Week: All Fired Up

The uranium market sprang back into action last week following a global conference.

-Spot U3O8 market action returns
-Term market also active
-Uranium miners issue glowing results
-China continues to build reactors apace

By Greg Peel

There's nothing like a global conference to rev up the action in uranium markets.

The month of April saw very little action in the spot market as buyers and sellers remained stuck on either side of the spread, refusing to budge. But when market participants returned from the World Nuclear Fuel Cycle 2023 conference held in The Hague up to April 20, it was all hands on deck.

Nine transactions were completed in the last week of the month, industry consultant TradeTech reports, totalling 900,000lbs U3O8 equivalent. Not only were the usual suspects back in trading, utilities also joined in after eschewing the spot market in past months.

The sellers had the edge, with TradeTech's weekly spot price indicator rising US$2.50 to US$53.75/lb.

For the month of April, a total of 2.1mlbs U3O8 changed hands, which rather puts last week's 900,000lbs into perspective. TradeTech's spot price indicator rose US$3.15 from end-March.

In addition to the action in the spot market, buyers were equally active in the mid-term uranium space last week, TradeTech reports, with four transactions concluded for delivery later this year also involving over 900,000/lbs U3O8 equivalent.

The positive market sentiment and the change in buying behaviour that panelists addressed during the aforementioned conference is evident, TradeTech suggests, in the number of utilities that are poised to make significant buying decisions soon.

Several utilities are awaiting or in the midst of evaluating offers for multiple deliveries with some utilities seeking deliveries beginning as early as next year. Some are considering potential purchases extending into 2030 and beyond.

TradeTech's term price indicators have risen from end-March to US$54.00/lb (mid) from US$51.50/lb, and US$54.00/lb (long) from US$53.00/lb.

Supply

The world's two biggest uranium producers, Canada's Cameco and Kazakhstan's Kazatomprom, reported March quarter results last week.

Cameco recorded more than double the earnings posted in the same quarter last year, which was the result of higher deliveries and higher average realised prices in both the uranium and fuel services segments.

"We remain in the enviable position of having what we believe are the world's premier, tier-one assets operating in a stable geopolitical region," said Cameco's CEO. "Amid the heightened supply risk caused by geopolitical developments, utilities continue to evaluate their nuclear fuel supply chains and are looking to diversify the origin of their supply".

In other words, away from Russia.

Kazatomprom reported that while March production fell marginally, as planned, total sales and realised prices were notably higher during the period. Total sales volumes more than doubled in the quarter.

Demand

China continues to maintain its leading role in the growth of nuclear power globally as it has 24 reactors under construction today, according to the China Nuclear Energy Association.

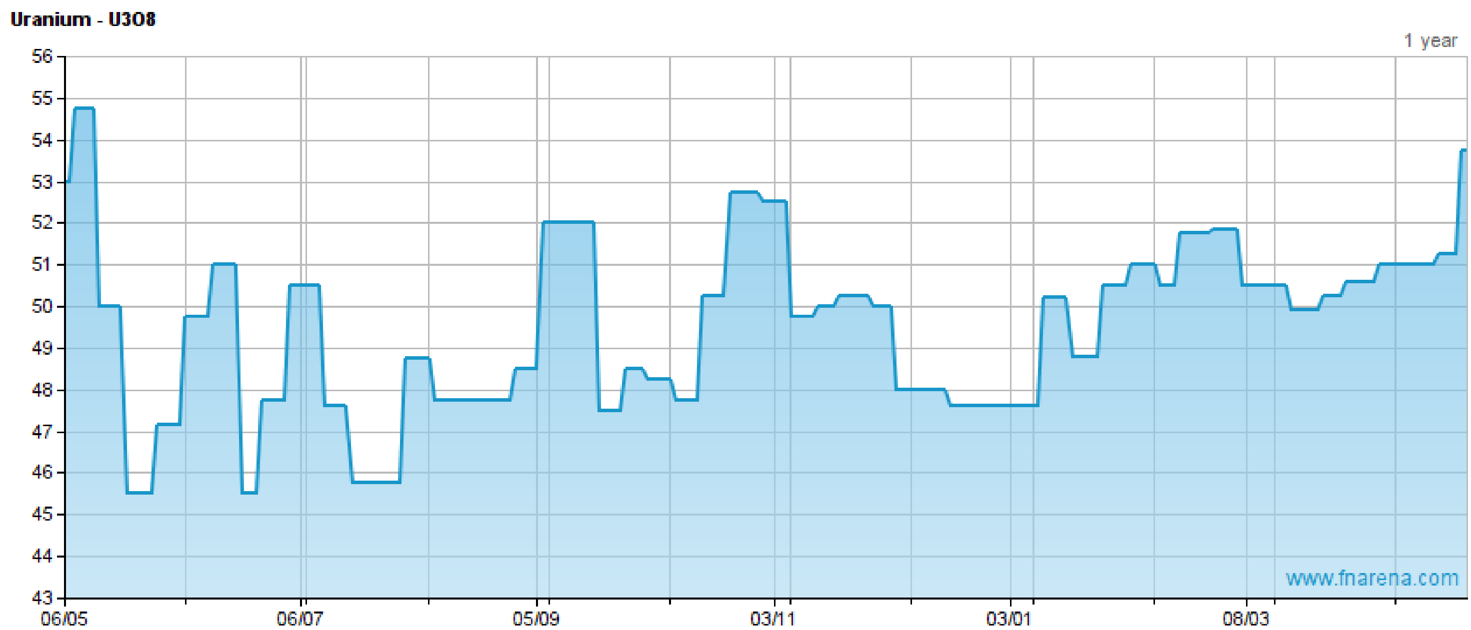
To date, China has 54 commercial power reactors in operation, which ranks the Asian nation third worldwide, TradeTech notes.

The International Atomic Energy Agency Director hailed China's efforts to achieve peak CO2 emissions before 2030, and carbon neutrality by 2060, noting that as the world's largest energy consumer, China has made significant strides in low-carbon development, including the development of nuclear energy.

According to the Agency, nuclear energy is a crucial component of China's plan to reduce greenhouse gas emissions, improve energy accessibility and security, and stabilise international energy market prices.

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
AGE	01/05/2023	0.0320	▼- 3.03%	$0.08	$0.03			
BKY	01/05/2023	0.3650	0.00%	$0.46	$0.25			
BMN	01/05/2023	1.3800	▲ 2.60%	$2.49	$0.15			
BOE	01/05/2023	2.5600	▲12.78%	$3.03	$1.61		$3.310	▲29.3%
DYL	01/05/2023	0.5150	▲ 0.98%	$1.25	$0.48		$1.040	▲101.9%
ERA	01/05/2023	0.0400	▼- 9.09%	$0.34	$0.04			
LOT	01/05/2023	0.1950	▲ 5.41%	$0.33	$0.15		$0.350	▲79.5%
NXG	01/05/2023	5.5700	▲ 1.64%	$7.51	$0.00			
PDN	01/05/2023	0.6500	▲ 4.00%	$0.96	$0.53	-19.2	$1.097	▲68.7%
PEN	01/05/2023	0.1450	▲ 3.57%	$0.24	$0.12	145.0	$0.340	▲134.5%
SLX	01/05/2023	3.1900	▼- 8.07%	$5.32	$1.22		$5.000	▲56.7%



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FNArena is proud about its track record and past achievements: [Ten Years On]

WEEKLY REPORTS

The Short Report - 04 May 2023

See **Guide** further below (for readers with full access).

Summary:

By Greg Peel

Week Ending April 27, 2023.

Last week the ASX200 continued to trend lower post hawkish RBA minutes before bouncing back on a drop in CPI, suggesting a pause was upon us. It was not to be, and between the RBA hike, US bank sector weakness and a Fed hike, the index has plunged this week.

Which suggests we might see more action this week in short position movements, as last week we saw little more than a shuffling of deckchairs, with no short position change of one percentage point or more.

The story remains the same – the table features a lot of battery mineral miners and consumer discretionary names, from retailers to BNPL, betting shops to auto, and Flight Centre ((FLT)) remains cemented at the top.

Otherwise, we note almond producer Select Harvests ((SHV)) has recently been moving up in share price after crashing late last year, as almond prices firm because it never rains but it pours in California. The shorters have taken a contrary stance, as the stock has moved up in the past couple of weeks to now be at 7.4% from 6.7% the week before.

And a weak earnings result from Bank of Queensland ((BOQ)) has that stock moving up the table, to 6.1% last week from 5.4%, with the bank due to go ex-div next week.

Note: if you borrow a stock to go short, you must pay the dividend you receive to the beneficial owner from whom you borrowed.

Weekly short positions as a percentage of market cap:

10%+
FLT 11.7
MP1 11.1
ZIP 10.8

No changes

9.0-9.9%

JRV, SYA

In: JRV Out: CXO

8.0-8.9%

CXO, LKE, TPW, AMA

In: CXO, AMA Out: JRV, JBH

7.0-7.9%

JBH, PBH, SHV, BRG, BRN

In: JBH, SHV Out: AMA

6.0-6.9%

VUL, BET, ACL, CCP, IEL, BOQ, NXT

In: IEL, BOQ Out: SHV, MSB, ARB, LTR

5.0-5.9%

ARB, NVX, BOE, LTR, MCR, ABB, INA, DOW, AWC, PLS, WEB, OBL, FFX, SGR

In: ARB, LTR, PLS, FFX Out: IEL, BOQ, 29M

Movers & Shakers

Nothing this week.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.3	0.3	NCM	0.7	0.4
ANZ	0.6	0.6	RIO	1.2	1.4
BHP	0.5	0.4	S32	0.8	0.6
CBA	1.6	1.6	STO	0.8	0.9
COL	0.4	0.4	TCL	0.7	0.6
CSL	0.4	0.3	TLS	0.2	0.2
FMG	1.4	1.3	WBC	1.6	1.6
GMG	0.6	0.5	WDS	1.0	1.1
MQG	0.6	0.5	WES	0.9	0.9
NAB	0.7	0.7	WOW	0.6	0.6

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

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.

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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WEEKLY REPORTS

In Brief: House Prices, Retail Sales, Banks & Gaming

House prices may retest lows, waiting for the slowdown in retail sales, bank's commercial real estate exposure and US gaming.

-Morgan Stanley expects house prices will retest lows
-Will the expected slowdown in retail sales arrive?
-Australian banks' exposure to commercial real estate
-US gamers generate a disproportionate share of global revenue

By Mark Woodruff (with a contribution by Sarah Mills)

Morgan Stanley expects house prices will retest lows

While recent data has suggested the worst of the house price downturn may be over, Jarden adopted a cautious tone, even prior to Tuesday's cash rate increase by the Reserve Bank.

Also in advance of the monetary tightening, **Morgan Stanley issued research suggesting house price lows will be retested**. This view was based on the broker's forecast for a further 50bps of tightening.

House prices in Australia rose by 0.5% in April after a 0.6% rise in March, with Sydney leading the way with a gain of 3% since January.

A constrained supply environment continues to provide some price support, in Morgan Stanley's opinion.

This broker noted the interest rate pause last month provided some sentiment support, with surveyed house price expectations up sharply in April.

National auction clearance rates held at an above average 65% for the third month in a row, observed Jarden, while surveys show a massive 43% increase in consumer house price expectations since November last year.

As a result, Jarden raised its 2023 forecasts for house price growth to 0% to -3.0% from -8.0%, and now expects a peak-to-trough fall of -12%, up from the -15-20% previously anticipated.

Despite this apparent buoyancy**, both Morgan Stanley and Jarden remain cautious for similar reasons.**

Jarden noted the improvement in house prices appeared to be largely a result of record low listings, with both new and total listings at record lows.

To quote Morgan Stanley, **"price increases, on the back of low transactions, have typically not been consistent with sustained rallies in house prices".**

Moreover, affordability remains a key issue. Jarden highlighted the national house price to householder income ratio remains near peak levels, while repayments are now at 40% of income nationally, which is a record.

Morgan Stanley also anticipates higher servicing costs from not only additional RBA hikes, but also the switching over from fixed rate mortgages. Additionally, a weaker labour market is expected to further impact on affordability and dampen some of the recent sentiment boost.

Surprisingly strong retail sales in March

Despite deteriorating confidence, rising cost of living and the cycling of lockdowns, March ABS retail sales data exceeded Jarden's expectations.

A material slowing in discretionary categories is yet to unfold, notes the broker, though some weakness was evident for household goods, which fell by -5.7% year-on-year in March. Moreover, the fashion category rose by only 3.6% compared to the 6.2% increase in February.

Other high frequency data suggest to Jarden non-food trends have softened further in April and May, with promotional intensity also lifting as costs rise.

In stark contrast, food continues to accelerate, up 8.6% in March, consistent with recent quarterly results by Coles Group ((COL)) and Woolworths Group ((WOW)), observe the analysts. It's felt Woolworths and Aldi are taking market share.

Jarden sees upside to its forecasts for both Coles and Woolworths, given the ABS data suggests trading towards the end of the March quarter was more brisk for Food & Liquor than indicated by the quarterly results.

Woolworths is the broker's top pick due to margin tailwinds, share gains and increasing consumer engagement.

The market consensus view of a slowdown in consumer spending is moderating, suggests Jarden, due to no further deterioration in consumer sentiment and upgraded house price forecasts.

Nonetheless, the broker retains its original slowdown conviction based on a weakening in March-quarter discretionary spending, more conservative ordering by retailers and higher inventories, rising costs and greater competition (mainly Amazon), the impact of direct to consumer (DTC) and new online players.

Overall, Jarden prefers defensive plays or those with lower exposure to housing, such as Woolworths, Metcash ((MTS)), Treasury Wine Estates ((TWE)), Universal Store ((UNI)), Corporate Travel Management ((CTD)) and Flight Centre Travel ((FLT)).

<u>Australian banks' exposure to commercial real estate</u>

Jarden checks out Australian banks' exposure to commercial real estate and considers the risks to be lower than for US banks.

Higher interest rates (affecting valuations/cap-rates), the exposure of smaller US lenders to the sector and the work-from-home trend have been conspiring against the sector, leading many to conjecture that the commercial real estate sector may be the next financial markets' victim, given smaller banks in the US constitute almost 70% of lending to the sector.

Not so in Australia, observes Jarden, where the major banks' share of real estate lending has fallen to 73%

from 87% in 2013; exposures are tracking well below GFC levels; and lending standards were sharply tightened for multi-residential loans in recent years (where Jarden's REITs analysts perceive the highest risk).

Nonetheless, the broker will be keeping a keen eye to commercial real estate disclosures in upcoming results, and estimates **National Australia Bank ((NAB)) holds the greatest exposure to the sector followed by ANZ Bank ((ANZ)) then Westpac ((WBC)).**

The broker calculates that a repeat of GFC impairments would translate to a -6% to -7% profit impact.

US gamers generate a disproportionate share of global revenue

The US will generate nearly 20% of global gaming revenues this year, despite there being considerably less gamers compared to China and Europe.

Consumer data platform Statista predicts more than 180m gamers will participate in the United States this year, compared to 760m and 310m in China and Europe, respectively.

China and Europe have a 28% and 12% respective slice of the overall global market, which adds up to around US$157bn in combined revenue.

However, according to data compiled by CasinosEnLigne.com, the average revenue per user (ARPU) in the US gaming market is expected to climb to over US$527 this year, or three times more than in China or Europe.

It seems US players are not being deterred by rising costs for new game releases, now around US$70, according to CasinosEnLigne. Nor are they put off by the surging costs of gaming PCs, consoles, and other equipment, which have doubled in the last decade.

Segment details from Statista show the US mobile games market has the highest ARPU of US$443 in 2023, while the online games segment will see an ARPU of $71.86 this year followed by downloaded games with US$35.72.

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