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The Overview 16 September 2019

Monday Morning Musings - A September to Remember and One to Forget *(Tobias M Levkovich 13 Sept 2019)*

Sentiment is substantially different now.

Twelve months ago, our Panic/Euphoria Model was in euphoria territory versus near panic presently. Intra-stock correlation of the top 50 names by market cap was below 20% last September, underscoring macro insensitivity, and it recently spiked to a high of 68% (before sliding back to 53%). Thus, one cannot view the two periods similarly in terms of future market outcomes, and the current backdrop clearly is more bullish for equities, in our opinion.

The US central bank was perceived to be in rate-hiking mode last year at this time compared with a more accommodative stance currently.

The old adage of Don't Fight the Fed comes to the fore when we recognize that global economic weakness and trade concerns are keeping tightening patterns at bay. However, as noted in our September 2019 Chart of the Month, one should not want to see a new rate-cutting cycle given that it generally does not bode well for the S&P 500's performance.

Corporate cost of capital soared from September through December in 2018, yet the C&I lending standards have stabilized and improved somewhat since.

Accordingly, terms are flexible, and money is accessible. Indeed, the NFIB surveys imply that the small business community actually is finding credit even easier to come by of late.

Earnings were primed for a major slowdown from 2018's powerful tax-induced surge, with 4Q18 EPS being the last robust double-digit jump year over year.

In some respects, 2020 should provide a more than doubling of per-share profit gains from 2019's meager pace, although current Street bottom-up consensus remains too high. Nonetheless, seasonality favors a fourth-quarter rally.

A required inventory correction is ending, with production likely to pick up modestly just to meet end-market demand.

As a result, 4Q19 earnings estimates may not need additional trimming and, therefore, we are raising our 2019 target to 3,050 on the S&P 500 (27,750 on the DJIA) from 2,850, acknowledging that an overshoot to 3,150 is possible. Cyclical and value stocks are likely to lead, and a risk-on mantra may drive small caps to outperform too. In many respects, secular growers and bond proxies, which have worked much of this year, could struggle over the next few months. Client pushback against shifting away from growth and defensives is quite firm, intimating existing portfolio positions, with a potential continuation of this kind of rotational "pain trade."

[Link to full article](#) to read the report:



Top Warrants & Stopped Out Warrants

Previous day's top warrants by value and volume					
Warrant Code	Value	Citi	Warrant Code	Volume	Citi
XJOMOQ	\$2,202,825	Citi Buys	XJOMOQ	738,000	Intraday
XJOLOA	\$472,900	Citi Sells	AMPKCP	300,000	Citi Buys
AMPKCP	\$153,000	Citi Buys	XJOLOA	244,000	Intraday
WPLKOE	\$150,879	Citi Sells	TLSSOF	200,000	Citi Sells
MQGKCF	\$145,525	Citi Buys	LSFJOA	184,285	Citi Buys

Stopped Out Warrants					
Warrant Code	Strike	Stop Loss	Remaining Value	Stop Loss Date	Final Listing Date
FMGKOY	10.2480	9.02	\$1.225	13/09/2019	17/09/2019
NSTKCI	8.9480	10.24	\$1.30	13/09/2019	17/09/2019
QANKOS	7.0230	6.33	\$0.70	13/09/2019	17/09/2019
RRLKOE	3.7130	4.45	\$0.73	13/09/2019	17/09/2019

Headlines & Highlights

- A drone strike on a key Saudi Aramco facility over the weekend has analysts anticipate at least a \$5 a barrel jump in crude prices after the strike cut Saudi Arabia's production by half. Exports will continue as normal as the country draws on supply from storage facilities. The US accused Iran of carrying out the drone raids, which Tehran flatly denied. President Donald Trump offered support for Saudi Arabia's self-defence in a call with Crown Prince Mohammed Bin Salman.
- Boris Johnson is set to defy the parliamentary ban on a no-deal Brexit and is ready to fight it out in the U.K. courts. Ahead of Monday's negotiations with European Commission President Jean-Claude Juncker, the PM vowed to do everything he can to secure a divorce deal with the EU before the Oct. 31 deadline, with senior officials revealing that Johnson has resolved on a hard-line plan.
- Employees at General Motors have called their first strike in 12 years with the United Auto Workers revealing that the walkout is effective midnight Sunday. GM offered higher pay, new products in eight U.S. plants, \$7 billion in investment and 5,400 new jobs, however the union, which is pushing to get entry-level employees to a wage of almost \$30 an hour in three to four years, said it's not enough.

Overnight

Equities | S&P500 3,007.39 (-0.07%) | Stoxx600 391.79 (+0.34%) | FTSE100 7,367.46 (+0.31%)

- US – The Dow Jones Industrial Average eked out an eighth-straight gain Friday, while the blue chip index and the S&P 500 remain within striking distance of fresh all-time highs as Sino-American trade tensions ease and central banks support risk taking with economic stimulus measures. The Dow Jones Industrial Average rose 37.07 points, or 0.1%, at 27,219.52, but the S&P 500 fell 2.18 points, or 0.1%, to 3,007.39, and the Nasdaq Composite Index retreated 17.75 points, or 0.2%. Shares of Broadcom Inc. fell 3.4% after the chip maker announced fiscal third-quarter earnings late Thursday that beat analyst expectations, though its outlook for annual revenue was below what Wall Street expected.
- EU – European banks advanced on Friday, continuing a rally as the European Central Bank took steps to improve the domestic economy while making it less painful to lenders. The Stoxx600 was up 0.34% to 391.79 while the FTSE100 was up 0.31% to 7367.46. The Euro Stoxx banks index rose as the central bank took several steps favourable to lenders — cutting interest rate less than anticipated, making more holdings eligible for refinancing and introducing an exemption of part of the deposits that have been slapped with a negative rate (so-called tiering). Bank of Ireland, CaixaBank and AIB Group each rose about 4%. Bolloré, the French holding company with interests ranging from logistics to media, rose over 4% after reporting a first-half profit rise of 54% and declaring a dividend of 2 cents a share.

Foreign exchange | AUDUSD 0.6868 (-0.07%) | DXY 98.2570 (+0.14%) | EURUSD 1.1074 (-0.20%)

- The greenback weakened after China said it's encouraging companies to buy US farm products including soybeans and pork. Meanwhile, safe haven currencies rallied in early trading in the wake of the attacks on Saudi oil fields over the weekend with the yen, loonie and krone all rallying.
- Cable was up on Friday, rallying 165pips after reports came out that UK politicians may be softening their stance on Brexit. The pound was up for the fifth week against the euro, which is its best run since 2016. It closed at 1.25.
- EURUSD rallied on Friday as well briefly spiking 40 pips to 1.110 as ECB policy maker Robert Holzmann said its latest stimulus package may have been a mistake. It retraced most gains going into close ending the session at up 9 pips at 1.1074.
- The AUDUSD also rose after close on Friday climbing 18 pips to 0.6890 before settling down to gain 2 pips on the day closing at 0.6868. Option strikes mature this week between 0.6890-0.6900.

Commodities | Gold 1,499.50 (-0.52%) | WTI 54.85 (-0.44%) | Copper 2.71 (+2.43%)

- Oil traders and analysts expect prices to jump at least \$5 a barrel when market open, after a strike on a key facility cut Saudi Arabia's production by half, pulling some 5% of world supply off the market. Saudi Aramco lost about 5.7mm b/d of output as these unmanned aerial vehicles struck the world's biggest crude-processing facility in Abqaiq and the second-biggest oil field in Khurais. The Kingdom is likely to restore almost half the production lost, though a full resumption may take weeks. Markets are expected to move up or near the circuit breaking limit of 7%, unless the Saudis say the damage isn't too bad; Aramco was said to provide an update within 48hrs of the strike.
- Copper (+2.4%) reached a six-week high, while gold notched a third straight weekly loss as demand for havens frizzled, as negotiations between the US and China improve. The gold/copper ratio fell to the lowest in more than a month, as anticipation of an interim deal reduced concerns on global demand. Adding to optimism were US reports that showed a rebound in consumer sentiment this month and better-than-expected retail sales for August. Net bearish positions on Comex copper were cut to a 6-week low, CFTC data shows. Zinc, lead and aluminium also moved higher on the LME, while tin (-3.8%) was the biggest underperformer alongside nickel.
- US ag markets are finally catching a break as signs that China will once again seek American exports sparked big weekly gains for corn, soybeans, cotton and hogs. China said its encouraging companies to buy US farm products and will exclude those commodities from additional tariffs. Soybeans (+0.4%) closed the week up more than 4%, the biggest gain for the November contract since May. Oct hogs surged 10%, the most since April, and cotton had its best week since June 2018.

CORPORATE

- JHX.AX James Hardie Industries PLC Investor Tour - NY

ECONOMICS

Overnight Summary

-- Equities --	Last	Chg	%chg
Dow	27,220	+37	+0.1%
S&P500	3,007	-2	-0.1%
Nasdaq	8,177	-18	-0.2%
Euro Stoxx	3,550	+11	+0.3%
Shanghai Comp.	3,031	+22	+0.7%
Nikkei	21,988	+229	+1.1%
....SPI (Aust)	6,667	-7	-0.1%
-- FX --	Last	Chg	%chg
\$A / \$US	0.6868	+0.0002	+0.0%
Yen / \$US	107.70	-0.39	-0.4%
Euro / \$US	1.1072	-0.0001	-0.0%
\$A / GBP	0.5496	-0.0069	-1.2%
A\$ TWI	59.90	-0.200	-0.3%
USDCNH	7.05	0.005	+0.1%
-- Cmdty --	Last	Chg	%chg
Aluminium	82.1	0.3	+0.4%

Copper	271.0	6.4	+2.4%
Nickel	805.1	-10.9	-1.3%
Coking Coal	148.0	0.2	+0.1%
Thermal Coal	65.7	0.2	+0.3%
Iron Ore	96.0	-0.2	-0.2%
Gold	1495.70	-7.90	-0.5%
Oil...WTI	54.85	-0.24	-0.4%
Oil..Brent	60.25	-0.16	-0.3%
Zinc	2385.00	+38.00	+1.6%
Gas	2.61	+0.04	+1.6%
-- DLCs --	Last	Chg	%chg
BHP Billiton Plc	1,836	32.6	+1.8%
Rio Plc	4,426	93.5	+2.2%
Clydesdale Plc	132	8.5	+6.9%
South 32 - London	158	5.0	+3.2%
-- US listeds --	Last	Chg	%chg
BHP - adr	51.92	+0.98	+1.9%
RIO - adr	54.85	+1.19	+2.2%
Janus Henderson	21.81	0.1	+0.6%
Resmed	132.19	-1.75	-1.3%
NWS A	14.55	+0.13	+0.9%
James Hardie	16.22	-0.04	-0.2%
Bonds	Last	Chg	%chg
US 10 Year	1.90	+0.12	
Aus 10 Year	1.16	+0.00	
Volatility	Last	Chg	%chg
VIX	13.74	-0.48	-3.4%

Source: Bloomberg

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