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The Overview 12 February 2019

## Monday Morning Musings, An Earnings Standoff

*(Tobias M Levkovich, 8 Feb 2019)*

- **Fourth quarter numbers have been fine, with results topping lowered** estimates by more than 3.0%. With close to 65% of the S&P 500 having reported 4Q18, sales have increased 6.7%, tailing off from better revenue gains in prior quarters, but still respectable. Interestingly, the IT and Materials sectors posted the weakest top-line pickups, and Energy reported nearly a 100.0% profits jump, beating the rest of the S&P 500 by a wide margin on easy comps.
- **Guidance has been more crucial and unfortunately weak, with downward revisions close to recession levels.** While the data was worse in 2008-09, that period involved a global financial crisis which is unlikely to recur and thus one can argue that things should start to look less bad going forward. Nonetheless, current Street bottom-up consensus expectations call for a 1.6% EPS decline in 1Q19, growth of 2.0% in 2Q19 and 2.9% in 3Q19, with full-year forecasts at 5.6%. There is a clear bias towards a 2H19 pickup which may prove optimistic, though we suspect some 1H19 upside surprises occur as management teams lowered the hurdle rates.
- **Rising wages are less likely to cause EBIT profitability issues** as higher labor compensation has been outpaced by corporate net income patterns over the past 35 years. Increasing worker pay has generally led to better top-line activity allowing for fixed overhead cost absorption variances that generates operating leverage. However, our lead profits indicator confirms some 4Q19 issues.
- **C&I lending standards are signaling a bit of caution on profit margins** which historically have coincided with some S&P 500 price pressure but this may be back-half loaded. While many investors seem to think equities will perform more impressively alongside expected year-over-year improvement in EPS later this year, we are less sanguine. Nine-month lead indications from the Fed's senior loan officers' survey (Equity Strategy: A Legitimate Good Reason to Worry) imply weaker rather than stronger 4Q19 trends.

[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
XJOKOR	\$412,583	Citi Buys	XJOLOB	241,224	Intraday
CBAJOQ	\$367,978	Citi Sells	RIOWOR	175,848	Citi Sells
XJOLOB	\$358,954	Citi Sells	XJOKOR	154,950	Citi Buys
QANBOA	\$278,080	Citi Sells	VOCKOR	125,000	Citi Buys
RIOKCY	\$267,000	Citi Buys	KDRKCD	100,000	Intraday

### Stopped Out Warrants

Warrant Code	Strike	Stop Loss	Remaining Value	Stop Loss Date	Final Listing Date
AACKOC	0.93	1.02	\$0.085	11/02/2019	13/02/2019
CTXKCA	24.64	27.08	\$2.440	11/02/2019	13/02/2019
REAKCF	65.34	71.75	\$6.290	11/02/2019	13/02/2019

## Headlines & Highlights

- Paul Krugman has warned that the U.S. economy may be heading into a recession during a period when the Fed doesn't have the power to properly counter it, stating that "We have no good policy response." The rate-hike cycle, which Krugman said was never "grounded in the data" to begin with, "was really looking like a bad idea."
- Traders continue putting money into emerging-market ETFs for a 17th straight week, thereby ignoring calls from some big banks that the rally this year may have gone too far. Inflows to such U.S.-listed ETFs totaled \$30.3 billion, with \$3.68 billion of inflow in the week ended Feb. 8.
- With the Huawei situation continuing, Mike Pompeo was close to issuing an "us-or-them" ultimatum to nations buying from the firm. The secretary of state hinted that contracts with the Chinese networking company could limit the availability of U.S. goods.

## Overnight

### Equities | S&P500 2708.58 (-0.01%) | Stoxx600 361.12 (+0.85%) | FTSE 7129.11 (+0.82%)

- US: The S&P500 is in the red as Communication Services and Healthcare names weigh on the index (down -0.64% and -0.30% respectively). Top performing sector is Industrials, gaining 0.43% so far overnight. To single stocks COTY is once again topping the index up 4.50% on the back of its 2Q earnings beat. NWL is in second place, up 3.89%. Biggest laggard is ATVI down 7% as the market anticipates 4Q earnings to come in below expectations.
- EU: UK's FTSE is in the green as Communication Services and Consumer Discretionary names top the index, up 2.48% and 1.51% respectively. The Health Care sector is the only sector in the red, down 0.72%. TUI is topping the index and has made back 4.90% after slumping early on in the month and worst performer is ANTO down 3.56%. STOXX is up overnight with all sectors in the green led by IT, up 1.28%. Biggest outperformer is Italian bank BAMI up 7.03% on the back of a report from the Bank of Italy stating Italy bank's gross bas loans fell and deposits rose in December. The DAX is in the green as Utilities and Real Estate names outperform, up 1.67% and 1.56% respectively.

### Foreign exchange | AUDUSD 0.7062 (-0.45%) | DXY 97.0720 (+0.41%) | EURUSD 1.1275 (-0.43%)

- The USD rallied overnight against all G10 currencies, as trade and global growth fears dominated market sentiment. USDJPY is currently trading at 110.39, up ~40pips from 4pm Sydney, and remains close to the night's high of 110.47.
- Poor price action seen in the Euro in recent days continued, with it now over 40pips lower on the night after trading in a ~60pip range. Sterling is ~65pips lower on the night at 1.2862, after poor UK Business Investment and Manufacturing data was released.
- After a spike upwards earlier in the evening the Aussie is ~30pips lower at 0.7062, whilst in the Scandies NOK has dropped more than 7 big figures vs. the Greenback after CPI data disappointed and as oil sold off on the night. Despite the price action in oil however, the Loonie is only slightly (~5pips) lower on the night.

### Commodities | Au 1311.80 (-0.21%) | Oil (WTI) 52.52 (+0.98%) | Cu 2.81 (-1.11%)

- Brent slightly under performed WTI with the former falling 1.1% and the latter 0.8%. Both crudes were lower on the back of waning sentiment surrounding this week's trade talks between Chinese & American officials. However, we

are due for higher level talks toward the end of the week, along with outlooks from the world's leading Energy bodies.

- The same sentiment that pushed the energy market lower had the same effect in metals. In base, copper and aluminium both fell less than 1%, while in precious, the Dollar strength pushed gold and it's relatives between 0.4-1.4% lower. The biggest movers were Nickel and Zinc, as both commodities fell 3.2% and 1.3%, respectively.
- In Iron Ore, the Dalian exchange reopened after Chinese New year to rally more than 8%. However, last night's session saw both the Singapore and Chinese contracts fall slightly. Volatility in the bulk commodity is set to continue, as the Vale saga continues to effect global supply ahead of the upcoming restocking season in Chin

## CORPORATE

- Challenger Ltd 1H Earnings
- Transurban Group 1H Earnings

## ECONOMICS

- 09:30 Aus ANZ Roy Morgan Weekly Consumer Confidence Index (Feb 10) (118.1 prev)
- 11:30 Aus Home Loans MoM (Dec) (-2.0% exp, -0.9% prev)
- 11:30 Aus Investment Lending (Dec) (-4.5% prev)
- 11:30 Aus Owner-Occupier Loan Value MoM (Dec) (-1.4% prev)
- 11:30 Aus NAB Business Conditions (Jan) (2 prev)
- 11:30 Aus NAB Business Confidence (Jan) (3 prev)

## Overnight Summary

-- Equities --	Last	Chg	%chg	
Dow	25,053	-53	-0.2%	
S&P500	2,710	+2	+0.1%	
Nasdaq	7,308	+10	+0.1%	
Euro Stoxx	3,166	+30	+1.0%	
Shanghai Comp.	2,654	+36	+1.4%	
Nikkei	20,333	-418	-2.0%	
...SPI (Aust)	6,021	+24	+0.4%	
-- FX --	Last	Chg	%chg	
\$A / \$US	0.7062	-0.0039	-0.5%	
Yen / \$US	110.37	+0.64	+0.6%	
Euro / \$US	1.1276	-0.0047	-0.4%	
\$A / GBP	0.5491	+0.0008	+0.2%	
A\$ TWI	60.70	0.300	+0.5%	
USDCNH	6.80	0.013	+0.2%	
-- Comdty --	Last	Chg	%chg	
Aluminium	85.3	-0.6	-0.7%	
Copper	281.7	-1.6	-0.6%	
Nickel	570.2	-18.8	-3.2%	
Coking Coal	207.0	6.0	+3.0%	
Thermal Coal	96.7	-0.5	-0.5%	
Iron Ore	87.3	-0.9	-1.0%	
Gold	1311.80	-6.70	-0.5%	
Oil...WTI	52.41	-0.31	-0.6%	
Oil..Brent	61.49	-0.61	-1.0%	
Zinc	2704.00	-27.00	-1.0%	
Gas	2.65	+0.07	+2.5%	
-- DLCs --	Last	Chg	%chg	Sprd v Oz
BHP Billiton Plc	1,725	22.0	+1.3%	14.7%
Rio Plc	4,287	22.0	+0.5%	18.1%

Clydesdale Plc	193	0.0	+0.0%	-0.4%
South 32 - London	202	3.0	+1.5%	0.8%
<b>-- US listeds --</b>	<b>Last</b>	<b>Chg</b>	<b>%chg</b>	<b>Sprd v Oz</b>
BHP - adr	50.90	+0.20	+0.4%	0.0%
RIO - adr	55.78	-0.25	-0.4%	1.2%
Janus Henderson	22.66	0.0	-0.2%	0.1%
Resmed	97.21	+0.40	+0.4%	0.7%
NWS A	12.22	-0.24	-1.9%	-2.5%
James Hardie	11.91	+0.23	+2.0%	0.2%
<b>Bonds</b>	<b>Last</b>	<b>Chg</b>	<b>%chg</b>	
US 10 Year	2.65	+0.02		
Aus 10 Year	2.06	-0.04		
<b>Volatility</b>	<b>Last</b>	<b>Chg</b>	<b>%chg</b>	
VIX	16.00	+0.28	+1.8%	

Source: Bloomberg

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