



BUSINESS

ASX down after cautious day of trading

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Geopolitical tensions have given Australian markets their second consecutive day of losses as investors remained cautious over the threat of missile strikes in Syria.

US President Donald Trump took to Twitter late on Wednesday AEST, telling Russia to "get ready" for Syrian-aimed missiles and markets responded.

The ASX was down on Thursday as the market took a cautious approach to geopolitical tensions.

Photo: Peter Braig

The S&P/ASX 200 index

finished 13.2 points down at 5815.5.

The banks again weighed heavy; Commonwealth was down 0.8 per cent at \$73.09, NAB lost 0.5 per cent to \$28.71 and Westpac was at \$28.95, down 0.6 per cent.

The supermarkets were also lower. Coles' owner Wesfarmers dropped 0.5 per cent to \$41.12, while Woolworths shed 0.5 per cent to \$26.64.

Transurban Group fell 1.5 per cent to \$11.20. Private hospital operator Healthscope added 3.4 per cent to \$1.96 after being linked to speculation of private equity interest.

A rise in commodity prices helped lift the materials sector. Oil and aluminium were both up more than 2 per cent on Thursday, with iron ore the only major loss, falling 2.5 per cent.

Despite a fall in iron ore prices, BHP's shares rose 0.7 per cent to \$29.64, while South32 gained 1.8 per cent to \$3.46.

Infigen Energy posted its biggest single-day percentage gain in more than seven weeks following asset manager Brookfield acquiring a stake in the company, which was revealed after-market on Wednesday. It was up 9.2 per cent to 66¢.

Aristocrat Leisure rose after a ratings upgrade by Goldman Sachs. The shares were up 1.5 per cent at \$23.50. Payments darling Afterpay fell 4.5 per cent to \$5.35 on being downgraded by the broker.

Tabcorp finished 2.6 per cent higher \$4.37.

Retail Food Group was down 8.3 per cent to \$0.94, almost wiping out Wednesday's strong gains.

The Australian dollar climbed above US77.70¢ at its peak on Thursday before finishing flat at US77.51¢.

Asian stocks suffered on Thursday amid the heightened geopolitical risks. The Shanghai Composite Index fell 0.8 per cent, Japan's Nikkei 225 was down 0.2 per cent and Hong Kong's Hang Seng dropped 0.6 per cent. Bank of Japan governor Haruhiko Kuroda resolved to maintain the central bank's massive stimulus program, and yet remained optimistic on meeting his 2 per cent inflation target.

Stock watch

Aristocrat Leisure

Goldman Sachs has put a "buy" recommendation on Aristocrat Leisure, having previously had no rating on the stock, and added it to the broker's conviction list of best ideas. The broker's \$30.70 price target implies a 33 per cent return from current levels if Goldman Sachs is right about Aristocrat's outlook. Its 2018 US slot managers survey found the pokies maker continues to win market share. "In our view, Aristocrat is poised to take market leadership in the US," the broker concluded, pointing to buzz around its Lightning Link product. The stock, which was trading at \$23.50 on Thursday, should benefit from an expectation that recurring revenues will increase to 70 per cent by 2018-19. The digital side of the business means the current multiple it commands of 13 times 2018-19 earnings before interest and tax "is likely undervaluing the higher quality earnings stream".

What moved the market

Volatility

BNY Mellon strategist Marvin Loh looks into market volatility this year which has delivered two defined bouts of equity market volatility, first in February and again this month. Naturally, US Treasuries and the Japanese yen are the safe-haven places to hide in a risk-off situation. But Mr Loh notes that some correlations have fizzled. "What struck us as interesting is that while equities fell over 10 per cent from January 26 through February 8, yields generally rose, and the USD-JPY was mostly unchanged. While we saw high-yield spreads widen by 35 bps during that period, [investment grade] spreads were unchanged and [emerging markets] was mostly stable from a currency and fixed income perspective," he said.

Lira

The Turkish lira has dropped to record lows as investors in the country become increasingly concerned over monetary policy and inflation. Turkish President Recep Tayyip Erdogan has dismissed the sell-off as simply an economic attack by enemies of the state but investors say the drop has been driven by Erdogan's tight influence over monetary policy. The president, self-described "enemy of interest rates", has called on the central banks to lower rates despite the country running at double-digit inflation. The lira, which has dropped 9.4 per cent this year, has suffered more recently following a weakening of the Russian rouble and the possibility of missile strikes in neighbouring Syria.

Oil

Oil prices lifted on heightened geopolitical tension, reaching a three-year high on Thursday. Saudi Arabia said it had intercepted three missiles in the kingdom just hours after President Donald Trump warned Russia on Twitter to "get ready" for American missiles in Syria. Light sweet crude on NYMEX rose 2 per cent on Thursday, to \$US66.82 a barrel. Prices lifted despite news that US crude oil stockpiles unexpectedly increased last week. A drop-off in US oil exports, alongside stronger imports and production had increased stockpiles well above forecast levels. CBA analysts are predicting that the US will decrease stockpiles shortly, driven by an attractive export margin.

Afterpay

Goldman Sachs has downgraded Afterpay Touch rating to "neutral" on a slowdown in the company's domestic growth. While Afterpay has been outperforming apparel category sales growth for the past nine quarters, its relative growth has been slowing from 120 per cent in fourth quarter of 2016 to less than 20 per cent in the second quarter of 2018. Goldman Sachs said it was important the company managed its expansion outside the domestic market in order to improve its share price. "Given the trends in its Australian business which has seen us downgrade growth assumptions, it is increasingly important that Afterpay show signs of executing in the US market," the broker said.



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