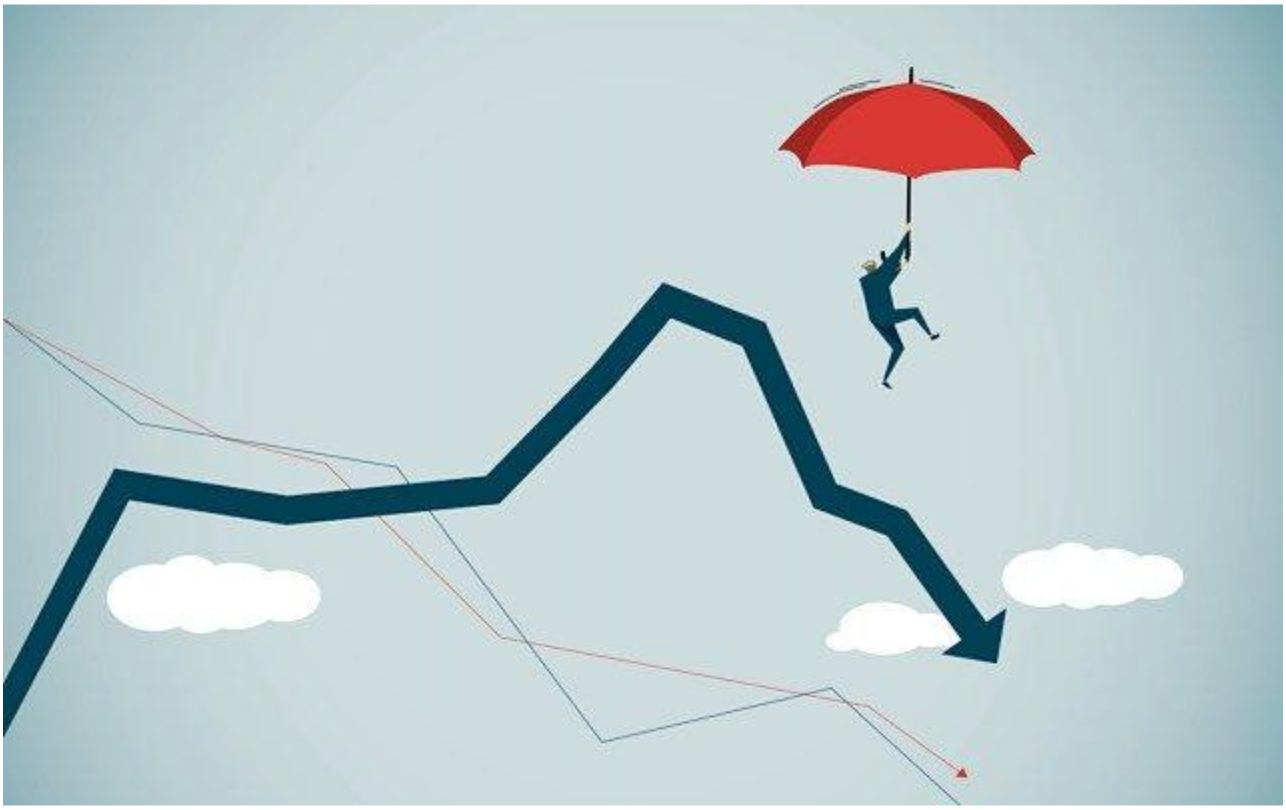
SMALL CAPS

Weekly review: Trump’s tweets cause market chaos once again

John Beveridge

August 3, 2019



WEEKLY MARKET REPORT

In one tweet US President Donald Trump managed to simultaneously throw cold water on world share markets, set back any prospects of an end to the US/China trade war and jacked up prices of a wide range of goods consumers buy.

If there is an ingenious end game to all of this sabre rattling and actual tariffs, it is very hard to see it.

If you think back to Trump’s original tweet that “trade wars are good, and easy to win’’ that started this whole global trade war, the one thing that has been proved is that trade wars are not good and are very difficult to win.

Trade wars are a lose/lose proposition

Indeed, the usual result seems to be a lose/lose result in which the warring countries both reduce their growth potential and increase costs for consumers.

Trump's latest proposal of imposing 10% tariffs from September 1 on $US300 billion of Chinese imports will really hit US consumers in the hip pocket because they apply to a really wide range of products including mobile phones and clothing.

The first round of 25% tariffs on Chinese goods applied mainly to industrial goods which had a less direct impact on consumers.

Consumers set to cop tariffs in the neck

This time around if consumers are forced to notice higher prices from the US tariffs and also the retaliatory Chinese tariffs on US exports, then even the remarkable resilience of the US economy could be tested – which is why US markets sold off and bond yields fell further.

Perhaps Trump believes that Federal Reserve chair Jerome Powell who cut official interest rates earlier in the week will simply pick up the slack by continuing to force rates down if activity falls but that is by no means a full solution for this sort of impasse.

Or perhaps Trump believes this threat will strengthen the arm of US negotiators and see the Chinese wilt before the September 1 deadline – something that has so far not appeared likely as the Chinese seem to be prepared to play a much longer game and outlast Trump.

Ultimately, trying to work our Trump’s motives and predict his next actions as he moves further into re-election mode is fruitless and all the rest of the world can do is watch and wait and prepare for more volatility to come.

Aussie dollar one of the early casualties

Here in Australia one of the first casualties of the Trump rhetoric has been the Australian dollar, which has slumped to levels not seen since 2009 as the US dollar rose strongly.

Falling as low as US68.05c, the dollar has also been reacting to a very weak underlying inflation rate in Australia of just 1.5% which is well short of the Reserve Bank’s target range of between 2% and 3%.

The Australian dollar continues to weaken against the greenback.
That magnitude of shortfall has most market watchers convinced that the Reserve Bank has not finished cutting at 1%, with the market putting an 84% probability on rates falling to 0.75% by October and some analysts thinking that the rate could fall to 0.5% by early next year.

Of course, a weak dollar is not all bad news for Australia.

It should continue boosting the competitiveness of our exports which have mostly been performing really well and by pushing up the price of imports a lower dollar could give inflation a bit of a boost, along with domestic share prices.

Ultimately, though, a low dollar effectively devalues the global buying power of all Australians and it is not an unvarnished positive.

Australia follows Wall Street lower

Unsurprisingly, Australia’s share market followed Wall Street lower after President Trump’s tweet turned a 300-point rise on the Dow Jones Industrial Average into an almost 200-point drop.

Naturally, that sent Australia’s record-breaking rise into a steep reversal with the ASX 200 index ending the week down 24.8 points or 0.4% at 6786.6 points.

However some market analysts including Rod North are expecting markets to continue marching higher:

It was only on Tuesday that the ASX 200 finally reached a new record high after 11.5 years cracking through the closing record of 6,828.7 points, set on November 1, 2007.

Record high doesn’t last long

That rise was predicated on the US Federal Reserve moving to a sustained interest rate easing – something that didn’t really eventuate with the announcement of a 0.25% fall – so the Trump tweet was enough to leave this new high-water mark in the past.

Even though the Fed did cut rates for the first time since December 2008 on Thursday, the tone of the remarks by chairman Jerome Powell left investors disappointed because there was no mention of a string of further cuts in the future.

Aussie market heads lower but gold and bond proxies help

The Australian market wasn't helped by a hefty fall in iron ore prices which caused some fairly large reversals in the share prices of the big miners.

BHP Group (ASX: BHP) was off 5.1% to $38.78, Rio Tinto (ASX: RIO) shed 3.6% to finish the week at $94.77 and Fortescue Metals Group (ASX: FMG)dropped 7.8% to $7.64.

It was not all bad news in the mining sector with the rising gold price adding support to the listed miners of the yellow metal.

Saracen Mineral Holdings (ASX: SAR) was up 9.2% to $4.49, our biggest gold miner Newcrest Mining (ASX: NCM) jumped 8.9% to $36.66, St Barbara (ASX: SBM) was up 5.2% to $3.65, Evolution Mining (ASX: EVN) rose 5.3% to $5.15 and Resolute Mining (ASX: RSG) was up 7.2% to $1.86.

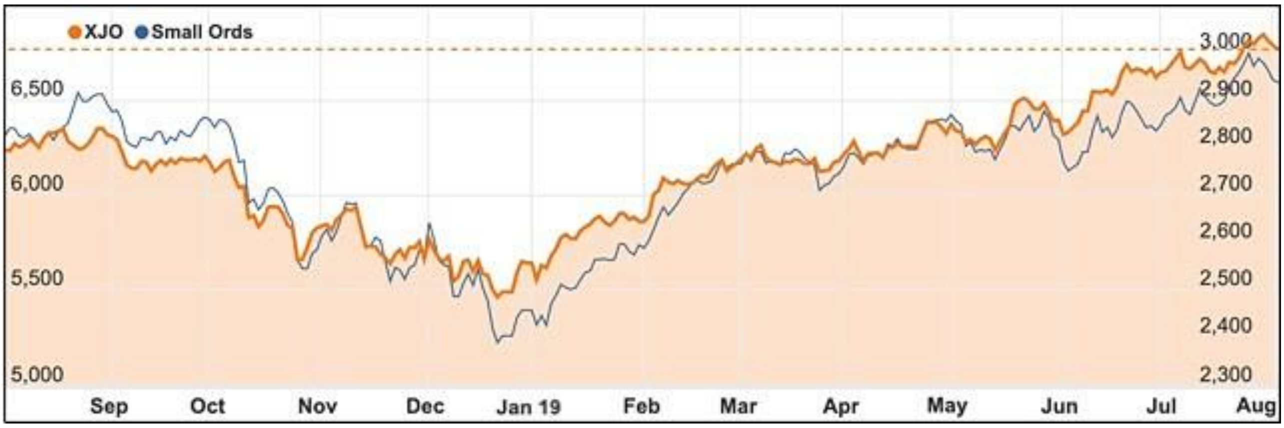
Tumbling bond yields were also a ray of light for bond proxy companies, helping shares in toll road operator Transurban (ASX: TCL) to add 4.2% to $16.04 while shopping centre owner Scentre Group (ASX: SCG) rose 3.3% to $4.10 as investors looked for reliable yields.

In a gloomy sign for the building industry, shares in cement maker Adelaide Brighton (ASX: ABC) fell a whopping 21.2% to $3.42 after a second profit downgrade in three months forced it to scrap its interim dividend.

The company said conditions in residential and civil construction had taken a turn for the worse.

Small cap stock action

The Small Ords index took a hit this week, falling 1.19% to close Friday on 2936.5 points.



ASX 200 vs Small Ords

Small cap companies making headlines this week included:

OpenDNA (ASX: OPN)

Artificial intelligence (AI) and e-commerce marketer OpenDNA achieved its third consecutive quarter of +300% growth in cash receipts.

In the June quarter, OpenDNA reported customer-generated cash receipts totalling $763,000, up significantly from the previous quarter of only $168,000.

The companies is seeking to continue building its customer base and assisting Australian businesses and brands with entering the China market.

Bryah Resources (ASX: BYH)

Manganese exploration within the Bryah Basin is proving to be a boon for Bryah Resources, which revealed positive results across three prospects this week.

On Friday, Bryah announced it had intersected up to 42% manganese at the Black Hill prospect where a best intersection was returned of 6m at 38.1% manganese from surface, including 3m at 42% manganese from 2m.

Over at the Black Caviar prospect, drilling unearthed 2m at 32.9% manganese; and 3m at 28% manganese, including 2m at 32.1% and 1m at 24.9% manganese.

Earlier in the week, Bryah reported it had extended the known manganese mineralisation at the Brumby Creek prospect where mineralisation was uncovered from surface about 1km to the south.

Better assays from Brumby Creek were 23m at 25.8% manganese from surface, including 3m at 31.2% manganese from 2m, 2m at 30.4% manganese from 6m, and 2m at 32.8% manganese from 10m.

Impression Healthcare (ASX: IHL)

Impression Healthcare has entered a collaboration with Group One Holdings – the owner of the ONE Championship martial arts competition, which is a rival to the UFC and has a much larger viewership.

Under the deal, Impression has become ONE Championship’s official supplier and concussion research partner.

Impression can use the Gameday mouthguard and FiTGuard head impact monitoring platform to monitor and respond to concussion “in-combat”.

In return, ONE Championship will promote and market the mouthguards at a minimum of 10 events across the calendar year. Impression will also pay a royalty to ONE for the ONE-branded Gameday mouthguards and FitGuard products over a two-year term.

WestStar Industrial (ASX: WSI)

Australian construction and mining services group WestStar Industrial revealed a healthy June quarter with cash receipts for the period up more than 300% on the March quarter to $17.8 million.

Boosting quarter’s record cash receipts was the company’s largest single contract awarded to-date.

According to WestStar, the $17.8 million figure exceeds the combined total of the previous three quarters.

Underpinning this performance is WestStar’s engineering contractor business SIMPEC, which collared a $10 million contract in May and won a further $7.5 million in contract extensions during the quarter.

EganStreet Resources (ASX: EGA), Lion Selection (ASX: LSX), Silver Lake Resources (ASX: SLR)

Merger and acquisition activity heated up in the gold space this week after Silver Lake Resources made a bid for EganStreet Resources, which owns the high-grade Rothsay project in WA.

Silver Lake’s offer values EganStreet at $52 million or $0.40 per share and EganStreet holders will receive 0.27 Silver Lake shares for every EganStreet security held.

EganStreet’s board and its largest shareholder Lion Selection have both voted unanimously in favour of the takeover.

Rothsay has a reserve of 1.4Mt at 4.4g/t gold for 200,000oz gold and is 85km from Silver Lake’s Deflector operation.

“Silver Lake’s nearby infrastructure at Deflector can unlock additional value at Rothsay and this is reflected in the share price premium offered to EganStreet shareholders,” Silver Lake managing director Luke Tonkin said.

Alt Resources (ASX: ARS)

Earlier this week, Alt Resources unveiled the results of a scoping study on its Mt Ida gold project in WA.

The study revealed the project’s potential as “robust” and “low cost” open pit gold operation based on a resource of 2.98Mt at 2g/t gold and 15.1g/t silver.

To develop the project, capital expenditure is estimated at $30 million to create a six-year 500,000tpa operation that will produce 181,200oz gold and 937,800oz silver.

The study anticipates the operation would become cashflow positive in the first 12 months of production and generate EBITDA of $102.2 million over six years.

Sabre Resources (ASX: SBR)

Sabre Resources impressed investors this week with news it would acquire 100% of Power Metals which owns the Bonanza gold project near Spectrum Metals' (ASX: SPX) Penny West gold project in WA.

Under the acquisition, Sabre will also be acquiring the Lyon River project which is located in a region known for its battery metal prospects including rare earths and manganese.

The primary Bonanza gold project covers 18sq km and is in WA's Youanmi gold mining district.

Sabre noted Venus Metals has had "significant" exploration success at its own gold projects in the same district.

To fund the exploration at the new assets, Sabre will raise almost $1 million before costs via a two-tranche placement.

The week ahead

Once again central banks will be closely watched this week with our own Reserve Bank board announcing its decision on official interest rates on Tuesday at 2.30 pm.

Chances are that the RBA board won't move on rates after making cuts in June and July but the commentary of the announcement still provides a window as to how the bank is approaching the coming months.

At this stage the RBA seem set to keep a close eye on economic activity in the second half of the year to check whether the earlier rate cuts have had an appreciable effect in stimulating the economy.

Reserve Bank Governor Dr Philip Lowe is also appearing before the House of Representatives’ Standing Committee on Economics and the New Zealand Reserve Bank is widely expected to cut interest rates.

There are a range of other economic releases on international trade, job advertisements, inflation and activity in the services sector but profit announcements are set to cause some of the most rapid responses for share prices.

Some of the better-known companies reporting in the coming week include the Commonwealth Bank, Universal Biosensors, Shopping Centres Australasia Property, Zenith Energy, Reckon, Suncorp, Transurban, Zip, AGL Energy, AMP, IAG, Baby Bunting and REA.

https://smallcaps.com.au/weekly-review-trumps-tweets-cause-market-chaos-once-again/