



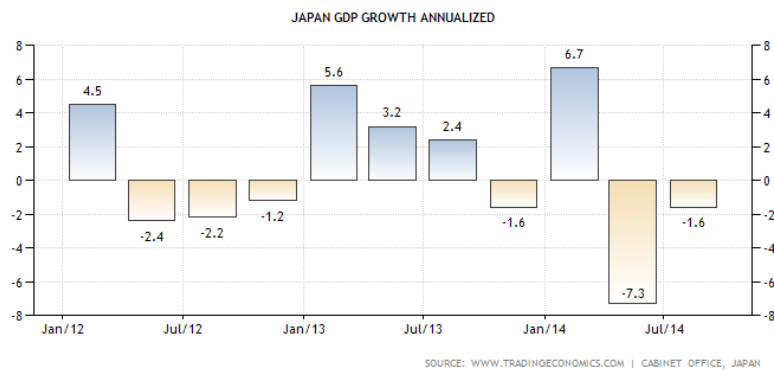
Monthly Newsletter – December 2014

KAITLYN LEAVES TO PURSUE NEW CHALLENGES

Unfortunately the headline is true, Kaitlyn the “MYOB Whizz” and all round nice girl of the office has left us to pursue new challenges. We want to thank her for being a great employee during her time at NYS. She will be missed by all. Thankfully, she was kind enough to dedicate her time to train the new girl in the team, Lauren for a clean transition. Lauren, welcome to the team!

JAPAN SLIPS INTO RECESSION

Japan unexpectedly slipped into recession during the month registering a second consecutive negative GDP growth rate for the calendar year. The market predicted modest growth for the third quarter, instead the economy continued to contract at a pace of -1.6%, still recovering from the increase in the sales tax from 5% to 8% in April.



In a case where “bad news is good news”, the third quarter contraction has led to speculation of further fiscal stimulus measures to be introduced by Prime Minister Abe, consequently holding off deep negative reactions in global markets. This comes off the back of last month’s announcement from the Bank of Japan and the Government Pension Investment Fund (GPIF) that both parties will allocate a greater percentage of funds in equities and real-estate funds, in addition to conventional bond purchases to spur markets. Furthermore, in an attempt to obtain a new mandate to delay a further increase in the sales tax (8% to 10%) PM Abe has called for a snap election in December. Political pundits agree, he is unlikely to relinquish his position anytime soon, rather, it’s a way for him to restore credibility in his economic strategy dubbed “Abenomics”. From an Australian perspective we expect the Japanese market will have a neutral effect on markets, until after the elections and confirmation of further stimulus measures which, if implemented, will be market supportive.

SANTA CLAUS RALLY - POSSIBLE IN THEORY

As we forecasted in our November newsletter the XJO index has settled toward the target range of 5300-5400 index points guided by investors continuing to digest the fragile global economic outlook, local concerns over the outcome of the Financial System Inquiry (FSI) and the general weakness in commodity prices, specifically Iron Ore and Oil. Technical traders familiar with Fibonacci retracement levels, a tool used to determine potential support/resistance levels, would be aware the index retraced and bounced off the 61.8% resistance

line (5300 index points). This signal is supportive given the retracement has coincided with an oversold RSI indicator as shown below.



If we use the current volatility level (XVI.ASX) of 12.62% and adjust it to a one month time frame, we calculate an expected change of 3.64% over the next month concluding the market anticipates the XJO Index to trade range during December between;

- Upper Range: XJO of 5592 Index Points**
- Median Range: XJO of 5396 Index Points**
- Lower Range: XJO of 5199 Index Points**

Given the above range of market expectations we cannot rule out a Santa Claus rally. We expect the market to consolidate and trade sideways during the month of December. The overall sentiment remains neutral and locally the market continues to be under pressure from lower Iron Ore and Oil prices and bearish tones in the banking sector.

THE FREE TRADE AGREEMENT WITH CHINA

As the G20 rolled on and the likelihood of the “shirt fronting” promised by Tony Abbott on Putin came to pass, we were blindsided by some of the most nauseating “ego stroking” ever seen in the Parliament House Chambers. It was truly over the top, but none of the international leaders, Modi, Jinping or Cameron could outdo the exceptionally smooth ego stroking skills displayed by Tony Abbott that made Shorten and his deputy “TsuTey” (Avatar) Bowen look a whole lot less oily. Abbott played the game well and despite wasting breath on insignificant topics like the \$7.00 GP Co-Payment he did conclude the G20 summit with a Free Trade Agreement with China, our biggest trading partner.

FTA Benefits - Agriculture

The FTA has widened the opportunities to Agriculture, Resources, Energy, Manufacturing and Services. What sparked our interest was the outcome for the Agricultural and Processed Food Industry; the eleven key outcomes were centered upon removing tariffs for dairy, beef, live exports, wine, barley, wool, seafood and processed foods gradually over an average period of 6 years. In short, any Australian company that can penetrate the Chinese market with its 1.4 billion people (and rising) will create for themselves a positive growth profile. Someone who is very aware of this fact is Gina Rinehart who immediately upon the signing of

the FTA committed to a \$475 million investment through her company Hope Dairies to purchase 5,000 hectares of Queensland Farmland to begin manufacturing infant milk formula by the second half of 2016. We have put together a list of agriculture companies listed on the ASX that are currently or considering exposure to China. We have highlighted companies **Red** if management has indicated they are seeking exposure to China, while companies highlighted **Green** indicates the company is already exporting to China;

AGRICULTURAL PRODUCTS

(Order of Market Cap: High to Low)

- **Graincorp Limited – ASX Code: GNC**
- **Select Harvests – ASX Code: SHV (Existing insignificant exposure to China)**
- **Ridley Corporation – ASX Code: RIC**
- **Elders Limited – ASX Code: ELD**
- **Webster Limited - ASX Code: WBA (Existing insignificant exposure to China)**
- **Capilano Honey - ASX Code: CZZ**

PACKAGED FOODS AND MEATS

(Order of Market Cap: High to Low)

- **Goodman Fielder - ASX Code: GFF**
- **Bega Cheese - ASX Code: BGA (Recently signed a supply and distribution agreement with one of China's leading retail groups)**
- **Fonterra Share Fund - ASX Code: FSF**
- **Tassal Group Limited - ASX Code: TGR**
- **Freedom Food - ASX Code: FNP**
- **Warrnambool Cheese - ASX Code: WCB**

FTA Benefits - Health Care

In what has been described as the “best ever offer” in a FTA on hospitals and aged care, China has agreed to permit wholly owned Australian hospitals and aged care institutions to be established in China. This is a big scoop for one of our Blue Chip favorites, Ramsey Health Care. The better news is Ramsey Health Care has signed, together with its Malaysian partner Sime Darby Bhd a non-binding agreement for a 50/50 joint venture with Chinese hospital operator Jinxin. The joint venture, subject to due diligence, will cover 5 hospitals (4 existing and 1 new) in the province of Chengdu. If the JV eventuates it will cement Ramsey Health Care as “the first major international hospital operator to invest in this range of hospital services in the Chinese patients market” (Christopher Rex, MD of Ramsey).

Ramsey isn't the only company that could benefit from the FTA, other companies that exist in this space include;

HEALTH CARE PROVIDERS, SERVICES, EQUIPMENT AND SUPPLIES

(Order of Market Cap: High to Low)

- **Healthscope - ASX Code: HSO**
- **Cochlear – ASX Code: COH**
- **Ansell – ASX Code: ANN**

If you are interested in any of the above companies and would like further information please don't hesitate to give us a call or write us an email.

Performance of Key Indices

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	5298.10	-206.9	-3.8%
S&P/ASX200	5313	-213.6	-3.9%
Dow Jones (US)	17828.24	+437.72	+2.5%
NASDAQ	4791.63	+160.89	+3.5%
S&P500	2067.56	+49.51	+2.5%
FTSE 100 Index	6722.62	+176.15	+2.7%
Nikkei 225 (Japan)	17459.85	+1046.09	+6.4%
10-year bond rate (US)	2.168%	+0.00169	-7.2%

Upcoming RBA Events

Reserve Bank Board Meeting – 2nd December
Minutes of the RBA meeting – 16th December

ABS releases March

Building Approvals (October) – 2nd December
Australian National Accounts (September) – 3rd December
Retail Trade (October) – 4th December
International Trade in Goods and Services (October) – 4th December
Housing Finance (October) – 10th December
Labour Force (November) – 11th December
Lending Finance (October) – 12th December
Sales of New Motor Vehicles (November) -15th December

Upcoming US Economic Releases

ISM Manufacturing Index – 1st December
International Trade (October) – 5th December
US Employment Situation (November) – 5th December
Retail Sales (November) – 11th December
Producer Price Index (November) – 12th December
FOMC Minutes (November) – 17th December
Existing Home Sales (November)–22nd December
GDP – 23rd December
New Home Sales (November) – 23rd December
Durable Goods Orders (November) – 23rd December
Jobless Claims – Weekly Basis

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