



## Monthly Newsletter – February 2015

### ECB FOLLOWS THE HERD

Mario Draghi, the head of the European Central Bank announced a €1.2 trillion Bond Buying program to battle the threat of the Eurozone heading into a deflationary spiral. The plan, expected to conclude in September 2016, will involve the monthly purchase of €60 billion in government bonds, debt securities (issued by European institutions) and private sector bonds. As we explained in our November newsletter, the Eurozone has been “sterilizing” its bond purchases since May 2010 serving to provide a stable interest rate environment among the Euro Nations, particularly the PIIGS. Since failing to stimulate economic growth to date, the ECB will no longer offset purchases; instead they will follow in the footsteps of the BOJ, BOE and the US Fed in flooding the markets with cash. The banking system will need to find a profitable way to deal with the surge in liquidity or pay the cost for depositing it with the ECB (through its negative interest rate policy).

The ECB's new program is likely to be effective in three ways;

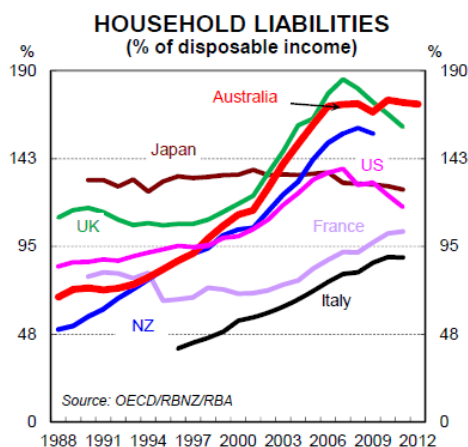
- **Devalue the Euro** making exports cheaper and far more competitive on a global scale,
- **Channel investment** away from low yielding government bonds to investments offering a higher rate of return such as corporate bonds and equities.
- The third manner in which it should influence the Eurozone is through **higher inflation expectations**. Given the inflation rate, or deflation rate rather, sits at -0.2% if consumers expect prices to rise (ECB target 2%), consumption and investment will likely rise in the immediate term, leading to a higher level of economic activity.

### HOUSEHOLDERS TO GET REPRIEVE ON RATES

If you have been following our monthly newsletters, you will know that we continue to hold concerns about the level of Australian household debt. We discussed this in detail in the October edition on three fronts; Debt to Income, Cost of Living Vs Wage Growth and Interest Rates. Lower Interest Rates are creating a false sense of security and if we are correct, the trend will continue when the RBA meets tomorrow. We believe the weak economic data to date will have put enough pressure on the RBA to cut Interest Rates by 25 basis points to 2.25%. In theory, **expansionary** monetary policy seeks to entice additional consumption, investment through cheaper credit and to lower the exchange rate with the end goal to stimulate economic growth. In reality, we reside in an imperfect complex economic web, which always puts theory to the test and provides new challenges for governments to conquer. So for a nation where household debt is one of the highest globally, it's not wise to be offering indebted households cheaper credit, especially if the current trend of the decline in wage growth continues. For the greater good of the broader economy, interest rates need to decline, but it will eventually come at a cost. Let's hope one benefit that emerges from the reduction in the interest rate is that households will use the increase in disposable income to pay down debt. Otherwise, the risks to the Australian housing market will continue to deepen.

## FOOD FOR THOUGHT

The Debt to Income ratio in the US hit its peak in 2007, at **x1.3** disposable income in the lead up to the Global Financial Crisis. **Australia currently sits at x1.8 disposable income**, the highest among its peers.



## HALF YEAR REPORTING SEASON UPON US

It's that time again and we will be looking closely for opportunities that may arise if results fall short of investor expectations. The markets rallied towards the end of January as yield continued to dominate, being the key investment theme among investors, however they may have pulled the trigger a little too early. Below is the list of expected reporting dates for a number of companies:

Week One (2-6 <sup>th</sup> February)		Week Three (16-20 <sup>th</sup> February)	
Company	Date	Company	Date
CREDIT CORP (CCP)	30/01/2015	NEWCREST (NCM)	16/02/2015
JB HI FI (JBH)	03/02/2015	G8 EDUCATION (GEM)	17/02/2015
DOWNER EDI (DOW)	04/02/2015	ANSELL LTD (ANN)	17/02/2015
REA GROUP	04/02/2015	CASH CONVERTERS (CCV)	17/02/2015
ECHO GROUP (EGP)	05/02/2015	BHP BILLITON (BHP)	18/02/2015
TABCORP (TAH)	06/02/2015	MONADELPHOUS (MND)	18/02/2015
FLEXI GROUP (FXL)	06/02/2015	SONIC HEALTHCARE (SHL)	18/02/2015
Week Two (9-13 <sup>th</sup> February)		TOLL HOLDINGS (TOL)	18/02/2015
CAPILIANO HONEY (CZZ)	10/02/2015	COCA-COLA (CCL)	18/02/2015
COCHLEAR (COH)	10/02/2015	RIDLEY CORP (RIC)	18/02/2015
BWP TRUST (BWP)	11/02/2015	SEEK LIMITED (SEK)	18/02/2015
COMPUTERSHARE (CPU)	12/02/2015	WESFARMERS (WES)	18/02/2015
CSL LTD (CSL)	12/02/2015	WOODSIDE (WPL)	18/02/2015
CAR SALES (CRZ)	12/02/2015	ASCIANO LTD (AIO)	18/02/2015
DOMINOS PIZZA (DMP)	12/02/2015	RCR TOMLINSON (RCR)	18/02/2015
COMMONWEALTH (CBA)	12/02/2015	BEGA CHEESE (BGA)	18/02/2015
COLLECTION HOUSE (CLH)	12/02/2015	WESTERN AREAS (WSA)	18/02/2015
ASX LTD (ASX)	13/02/2015	PACIFIC BRANDS (PBG)	18/02/2015
RIO TINTO (RIO)	13/02/2015	LEIGHTON HOLDINGS (LEI)	19/02/2015
TELSTRA (TLS)	13/02/2015	BREVILLE GROUP (BRG)	19/02/2015
PALADIN ENERGY (PDN)	13/02/2015	THE REJECT SHOP (TRS)	19/02/2015
Week Three Cont'd		CABCHARGE AUST (CAB)	25/02/2015

<b>Company</b>	<b>Date</b>	ATLAS IRON (AGO)	25/02/2015
INVOCARE LIMITED (IVC)	19/02/2015	RAMSEY HEALTH (RHC)	25/02/2015
APA GROUP (APA)	19/02/2015	TOX FREE (TOX)	26/02/2015
FORTESCUE (FMG)	19/02/2015	BLACKMORES (BKL)	26/02/2015
SANDFIRE (SFR)	19/02/2015	BC IRON (BCI)	26/02/2015
PLATINUM ASSET (PTM)	20/02/2015	FLIGHT CENTRE (FLT)	26/02/2015
AMP LTD (AMP)	20/02/2015	HELLO WORLD (HLO)	26/02/2015
<b>Week Four (22-27<sup>th</sup> February)</b>		ROC OIL (ROC)	26/02/2015
CROWN LTD (CWN)	23/02/2015	QANTAS (QAN)	26/02/2015
SANTOS LTD (STO)	23/02/2015	OIL SEARCH (OSH)	27/02/2015
IAG GROUP (IAG)	23/02/2015	NORTHERN STAR (NST)	27/02/2015
ILUKA RESOURCES (ILU)	23/02/2015	SEVEN GROUP (SVW)	27/02/2015
MACA LTD (MLD)	23/02/2015	SEVEN MEDIA (SWM)	27/02/2015
SILVER LAKE (SLR)	23/02/2015	WOOLWORTHS (WOW)	27/02/2015
BEACH ENERGY (BPT)	24/02/2015	<b>March (2-30<sup>th</sup> March)</b>	
CALTEX AUST (CTX)	24/02/2015	SELECT HARVEST (SHV)	02/03/2015
NIB HOLDINGS (NHF)	24/02/2015	RETAIL FOOD (RFG)	02/03/2015
PATTIES FOOD (PFL)	24/02/2015	HARVEY NORMAN (HVN)	02/03/2015
VEDA GROUP (VED)	24/02/2015	VIRGIN AUST (VAH)	02/03/2015
QBE INSURANCE (QBE)	25/02/2015	MYER HOLDINGS (MYR)	20/03/2015

### **US BOND YIELDS – REACHING NEW LOWS**

US Bond Yields continued to decline and reached new lows during the month of January, as the decline in US equities continued to push money into the safety of US bonds. What we conclude from the 24.2% fall in the 10 year government bond yield during the month, is participants are highly concerned about the growth prospects of global economies. If the trend continues it may begin to weigh on Australian equities. The chart below shows the movement of 10 and 30 year bond yields over a 10 year period.



## **S&P/ASX200 XJO – TECHNICAL VIEW**

The XJO Index currently resides at 5588.30 index points and will likely retest resistance of 5650 over the coming weeks. The technical indicators look positive with the MACD signaling further upward momentum, while the RSI indicates a hesitant but positive bias towards an upward move. If reporting season exceeds expectations the market will make a higher move towards longer term resistance of 6000, its highest move since 2008.



### **Performance of Key Indices**

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	5551.60	+163	+3%
S&P/ASX200	5588.30	+177.3	+3.3%
Dow Jones (US)	17164.95	-658.12	-3.69%
NASDAQ	4635.24	-100.81	-2.1%
S&P500	1994.99	-63.91	-3.1%
FTSE 100 Index	6749.40	+183.31	+2.8%
Nikkei 225 (Japan)	17674.39	+223.62	+1.3%
10-year bond rate (US)	2.168%	-0.00525	-24.2%

### **Upcoming RBA Events**

Reserve Bank Board Meeting – 3<sup>rd</sup> February  
Statement on Monetary Policy – 6<sup>th</sup> February  
Minutes of the RBA meeting – 17<sup>th</sup> February

### **ABS releases March**

International Trade in Goods and Services (December) – 3<sup>rd</sup> February  
Building Approvals (December) – 3<sup>rd</sup> February  
Retail Trade (December) – 5<sup>th</sup> February  
Housing Finance (December) – 11<sup>th</sup> February  
Labour Force (January) – 12<sup>th</sup> February  
Lending Finance (December) – 13<sup>th</sup> February  
Producer Price Index (December) – 24<sup>th</sup> February  
Wage Price Index (December) – 25<sup>th</sup> February

### **Upcoming US Economic Releases**

ISM Manufacturing Index – 2<sup>nd</sup> February  
International Trade (January) – 5<sup>th</sup> February  
US Employment Situation (January) – 6<sup>th</sup> February  
Retail Sales (January) – 12<sup>th</sup> February  
Consumer Price Index – 16<sup>th</sup> January  
Housing Starts – 17<sup>th</sup> January  
FOMC Minutes (December) – 18<sup>th</sup> February  
Producer Price Index (January) – 18<sup>th</sup> February  
Existing Home Sales (January) – 23<sup>rd</sup> February  
New Home Sales (January) – 25<sup>th</sup> February  
Durable Goods Orders (January) – 26<sup>th</sup> February  
GDP – 27<sup>th</sup> February  
Jobless Claims – Weekly Basis

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