



Monthly Newsletter – December 2015

MINERS WEIGH HEAVILY ON THE MARKET

It's been a gruelling month and a half for mining companies and their shareholders. The once "Great Commodity Boom" that saved Australia from recession has busted and hard, leading the S&P/ASX Metals and Mining index straight through levels not seen for **over 11 years**. Falling demand, oversupply and the odd mining disaster have all culminated to the situation the miners find themselves in today.



It wasn't that long ago we were complaining about the "two speed" economy, unfortunately it's now "one speed" and it's painfully slow. Some would argue **its going in reverse** including former Greek Finance Minister Yanis Varoufakis who warned attendees at a Sydney University function (where he once taught economics) that "**Australia is headed for a recession**". Either way I'm blaming our current situation on Labour and their decision to introduce a mining tax. Despite its eventual failure, surely at the time it was introduced it pressured miners to find alternatives to increase shareholder value and since acquisitions at the time were expensive for most (except for the likes of Tom Albanese) the only way ahead was to boost production from existing assets. Since then miners increased capital expenditure only for their strategies to be met with diminishing demand for their commodities, so what now? Lower tax receipts for the government coffers and another example of how a unionist mentality can assist in destroying an industry.

Opinions aside, what is happening right now is a typical **commodity see-saw**. Excess supply has now replaced excess demand. Basic economics tells us a prolonged decline in commodity prices will at some stage in the future result in a contraction of supply leading to higher commodity prices. When this will occur is anybody's guess, but after it's all said and done you can be certain it's the low cost producers that will have survived. On the other hand the future for high cost producers such as Atlas Iron is less than certain. Struggling to make a profit among the low iron ore price environment, companies like Atlas have already resorted to "high grading", a method of processing **higher grade and lowest cost ore** in hope commodity prices will rise in advance of having to revert to processing **lower grade and higher cost ore**. Time will tell how successful this strategy will be but the longer a company has to "high grade" its resource the larger the impact on the company's profitability over the long term. **The approach we believe investors should adopt in relation to investment in the mining sector remains the same.**

Whether it is the juniors or well established producers the key focus should remain on companies with quality balance sheets, consistent levels of positive free cash flow, low debt levels and prudent spending habits. Avoid exploration companies where the cash balances is low and director fees are stuck in the past. In most instances a quick glance at a company's quarterly cash flow statement is all it takes to identify a company of this nature.

AUSTRALIA'S INNOVATION SYSTEM

It's no secret Prime Minister Malcolm Turnbull understands the importance of innovation in influencing Australia's rate of economic growth. The PM stated during his first press conference "The Australia of the future has to be a nation that is agile, that is innovative, that is creative", so expect this month's release of the enquiry into "Australia's Innovation System" to be highly influential in driving economic reform into 2016. Many pundits are expecting change in specific areas including tax breaks for research and development, insolvency and bankruptcy laws, university spending and the relaxation of venture capital raising laws. It comes at a time when Australia is considered a "**laggard**" among peers in terms of its innovative culture. What we need is an eco-system from which businesses can form, grow and thrive and where individuals can feel more comfortable in taking risks, something we would like to see develop under Malcolm Turnbull's tenure.

ASX TRANSITION TO T+2 SETTLEMENT – MARCH 2016

The ASX has indicated in March 2016 they will reduce the settlement period for Equities and Warrants from Trade Date + 3 business days (T+3) to Trade Date + 2 Business days (T+2). The ASX has announced the current target date is now the 7th March, subject to change. This means all clients will need to ensure funds are available in their nominated bank account a day earlier than what is currently required.

The ASX has produced a brochure in relation to the change of settlement period. We recommend clients to view this brochure by clicking [here](#)

Performance of Key Indices

<i>Equities</i>	<i>Close</i>	<i>Change (M)</i>	<i>Change % (M)</i>
All Ordinaries	5218.2	-70.36	-1.33%
S&P/ASX200	5166.52	-72.92	-1.39%
Dow Jones (US)	17719.92	+56.38	+0.32%
NASDAQ	5108.67	+54.92	+1.09%
S&P500	2080.41	+1.05	+ 0.05%
FTSE 100 Index	6356.09	-5	-0.08%
Nikkei 225 (Japan)	19747.47	+664.37	+3.48%
10-year bond rate (US)	2.2061%	-0.000083	-0.37%

Upcoming RBA Events

Reserve Bank Board Meeting – 1st December
Minutes of the RBA meeting – 15th December

ABS releases March

Balance of Payments (September) – 1st December
Building Approvals (October) – 1st December
National Income Accounts (September) – 2nd December
International Trade in Goods and Services (October) – 3rd December
Retail Trade (October) – 4th December
Housing Finance (October) – 9th December
Labour Force (November) – 10th December
Lending Finance (October) – 11th December
Residential Property Price Indexes (September) – 15th December

Upcoming US Economic Releases

PMI Manufacturing Index – 1st December
ISM Manufacturing Index – 1st December
International Trade – 4th December
US Employment Situation – 4th December
Producer Price Index – 11th December
Retail Sales – 11th December
Consumer Price Index – 15th December
Housing Starts – 16th December
Industrial Production – 16th December
FOMC Meeting Announcement - 16th December
FOMC Forecasts - 16th December
Philadelphia Fed Business Outlook – 17th December
GDP – 22nd December
Existing Home Sales – 22nd December
Durable Goods Orders – 23rd December
New Home Sales – 23rd December
Jobless Claims – Weekly Basis

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