



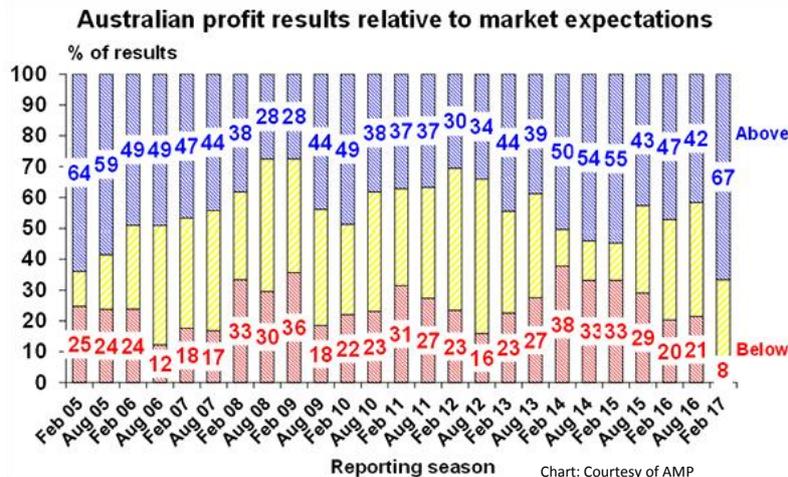
MARCH NEWSLETTER – CONFESSION SEASON REVIEW

REPORTING SEASON

As we reflected on a solid reporting season, we couldn't help feel something was amiss. On one hand we have a slew of reports reflective of a solid corporate environment and on the other hand the economic backdrop didn't seem strong enough to start a lawn mower. Considering the contraction in GDP during the September quarter (-0.5%) it was obvious why the market wasn't interested to carry on with the same enthusiasm shown by our corporate leaders. Yesterday despite the market responding positively to the release of the GDP number for the December quarter (+1.1%) we believe it'll be no more than a short lived celebration of having avoided a recession. The market needs more than just a one quarter bounce to consider it a trend. Technically the view isn't as dramatic but it does point to near term resistance of 5800 Index Points before weakness emerges potentially working its way to forming a classic "Cup and Handle" formation;



Corporate earnings were solid with only 8% of companies reporting a loss for the Half Year;



The resource sector lived up to market expectations with BHP Billiton (BHP) and Rio Tinto (RIO) returning to profit while improved cash flow allowed for significant debt reduction (a major theme of mining companies) and a larger dividend for shareholders. The biggest “turnaround” story was no other than Andrew Forrest’s Fortescue Metals (FMG) impressing with a solid balance sheet, showing no sign of the financial strain they had experienced years earlier. If you can stomach some volatility and are bullish on the outlook of Iron Ore a near-term pullback in its share price could be the ticket to jump onboard and get some exposure to one of the better WA mining stories.

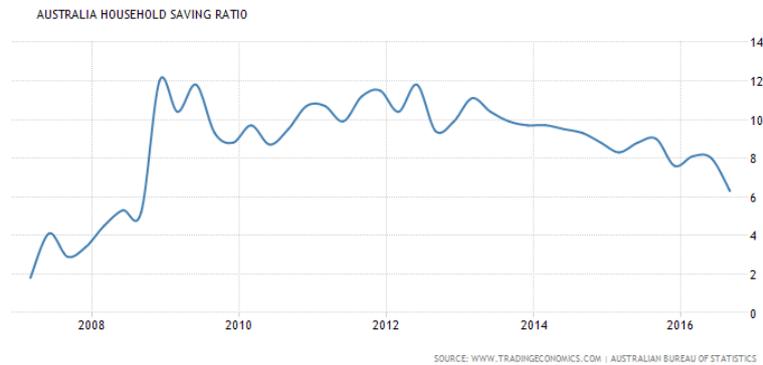
While at first glance the charts of many resource companies look overvalued, we mustn’t overlook the significant value created and not yet fully realized through the cost cutting and efficiency measures put into place by resource industry players when commodities were wreaking havoc on their balance sheets. Resource companies that survived the bottom end of the cycle have reemerged with low operating cost profiles, a strong focus on maximizing productivity from reduced asset bases and greater resilience to wild swings in commodity prices. It’s these reasons why the resource sector has plenty to offer investors despite the significant share price gains to date. Technically the charts point to further gains over the longer term and importantly commodities are no longer held to ransom by the downtrend in commodity prices that clouded the market for a significant period of time;



BANKING SECTOR

The banking sector provided mixed results with CBA and ANZ reporting increases in net profit from the same period a year earlier while NAB disappointed, reporting a 1% decline in Dec16 quarter cash earnings of \$1.6 billion (WBC reports in March). Net interest margins or a measure of bank profitability continues to track lower across the board. Luckily for the banks they may have caught a small reprieve given the improvement in GDP yesterday, likely to be enough for the RBA to hold off reducing the cash rate in the immediate term. Hidden deep within the reports and remaining a concerning trend are home loans 90+ days in arrears which continue to track higher. Adding some fuel to the fire the household saving rate continued to decline to its lowest level since the GFC.

Either the market is spending more on goods or services or savings are being consumed by the higher levels of debt;



Let's not forget wage growth remains at historical lows;



What is very clear is the banks face a challenging environment with the surrounding environment, macro and regulatory continuing to build the case against further exposure to the banks. While for now the banks will continue to prove our view wrong we will continue to monitor the situation closely and advise of any red flags that demand immediate attention.

THE CURRENT ACCOUNT AND AUSTRALIAN DOLLAR

Australia's Current Account, the sum of the balance of trade (good and services exports *minus* imports) recorded its narrowest deficit of \$3.853 billion since 2001, thanks largely to the rise in coal and iron ore and a steep ramp up in shipments of LNG;



The market is now betting on its first current account surplus since the 1970's, which would provide significant support to the Australian dollar. Technically we see the AUD rising higher from current levels with a price target of AUD/USD of \$0.795 cps;



WA PUBLIC HOLIDAY – ASX WILL BE OPEN

Western Australia is closed on Monday the 6th March for Labor Day. The ASX will trade as per normal 7am - 1pm (WST)

Performance of Key Indices

| Equities | Close | Change (M) | Change % (M) |
|------------------------|--------------|-------------------|---------------------|
| All Ordinaries | 5761.00 | +57 | +1.00% |
| S&P/ASX200 | 5712.00 | +58.8 | +1.04% |
| Dow Jones (US) | 20812.24 | +921.30 | +4.63% |
| NASDAQ | 5825.44 | +182.79 | +3.24% |
| S&P500 | 2363.64 | +84.09 | +3.69% |
| FTSE 100 Index | 7263.44 | +155.79 | +2.19% |
| Nikkei 225 (Japan) | 19118.99 | -29.09 | -0.15% |
| 10-year bond rate (US) | 2.39% | -0.08% | -3.14% |

RBA releases

Reserve Bank Board Meeting – Monetary Policy Decision – 7th March
Minutes of March – 21st March

ABS releases

International Trade in Goods and Services (January) – 2nd March
Building Approvals (January) – 2nd March
Retail Trade (January) – 6th March
Building Approvals (January) – 9th March
Housing Finance (January) – 10th March
Lending Finance (January) – 15th March
Sales of New Motor Vehicles (February) – 15th March
Labour Force (February) – 16th March
Job Vacancies (February) – 30th March

Upcoming US Economic Releases

Jobless Claims – 2nd March
International Trade – 7th March
Employment Situation – 10th March
Producer Price Index – 14th March
Consumer Price Index – 15th March
Retail Sales – 15th March
FOMC Meeting Announcement – 15th March
FOMC Forecasts – 15th March
Fed Chair Press Conference – 15th March
Housing Starts – 16th March
Industrial Production – 17th March
Existing Home Sales – 22nd March
Durable Goods Orders – 24th March
PMI Manufacturing Index – 24th March
International Trade in Goods and Services – 28th March
GDP – 30th March

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