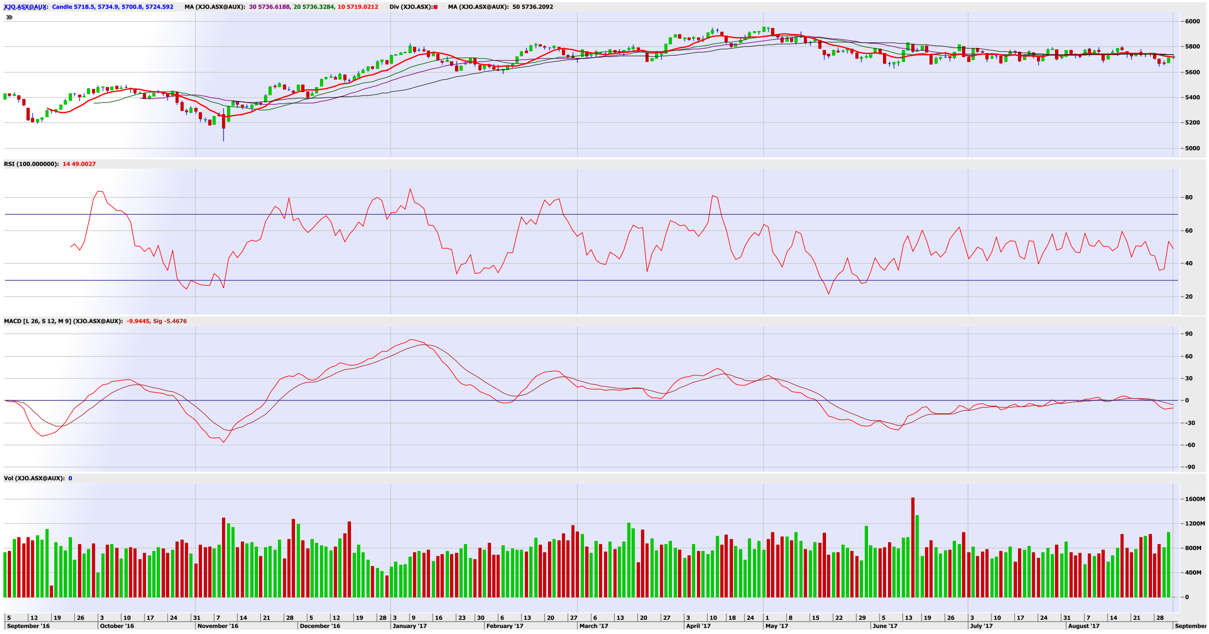
New York Securities Pty Ltd

Converging Tides and Weird Charts - September Newsletter

OpenMarkets: Please read our August Newsletter on the facility we have set up for clients when they transfer to our New Clearing and Settling agent. It is the best we can provide for FREE, it allows you to access your portfolio at any time, view a snapshot of the your cash position for buying additional shares, obtain quotes on ASX and NSX stocks, create your own watch lists, as well as charts and Market Depth of each stock. PLUS more!

In the meantime a weird chart:



You will note that the above chart (ASX200) is effectively Flat Lining within a very narrow range, the last few months have indicated that the buyers and sellers are as equally confused as you and me. Up one day, down the next with everyone waiting for the Catalyst to cause a breakout.

The Good News is it will breakout to the upside but not just yet. Before that, we expect it will have its seasonal shift downwards and create buying opportunities, for those with cash and the courage to buy on the down side, sometime late September to about mid October.

September and October have traditionally and seasonally been bad months, for good reasons, although rarely explained. The End of September is the end of the USA Government Financial year when new budgets need to be approved, increased debt ceilings are argued in Congress before being approved, but not before scaring the pants of everyone that the USA will default on its debts. In addition, a substantial number of Funds in the USA do their window dressing by selling stocks for losses or profits to ensure their funds display the right Stocks in their Portfolio for their Investors at the end of their financial year. This process also applies to Australian Fund Managers on the 30th June each year. And of course the 1929/32 Depression was created in October as was our 1987 Black Monday which casts a Psychological cloud over October every year.

Whilst this period and others, including unexpected Black Swan events, tend to scare investors each year, it is in reality one of the best buying opportunities throughout the year.

I would hasten to add that this applies predominantly to Index and large stocks that the big boys play with for shorting purposes, and does not normally have a major effect on junior stocks. However, this always reverses and creates an upward lift in stocks about mid to late October when the short players need to buy back to generate profits. This instigates the Technical rally on the Charts and everyone piles on until about April/May.

There is a plethora of bad news out there, from Debt ridden countries throughout Europe, USA, Great Britain, Australia, to Venezuela, North Korea, and conflicts in the Mid East.

North Korea is currently the biggest threat to World peace. The choices unfortunately are a major Economic war between China, Russia and the USA, or even worse a Nuclear War on the Korean peninsula.

But there is also good News out there:

The Gold Price is rising and whilst not yet generating a lot of buying interest in the junior end, it will nevertheless follow though in due course. This has been created to a large extent on the Korea issues, but also because of future inflation and huge demand for physical Gold. The USA treasurer for the first time in decades actually visited Fort Knox to ensure the USA actually had the gold they state in their possession, possibly for revaluation of their assets and to call on more advances from the Federal Reserve if the cash gets tight at the end of September while the Government fights with the Senates over the budget and the debt ceiling.

The USA numbers are looking OK even with all the push back against Trump, by just about everyone, and I believe he will eventually win the war on the Political elites and get his Health bill, Tax laws and Infrastructure bills through the Senate. If he does the accumulated funds of USA companies, who are holding profits offshore, could be repatriated back to the USA, which is potentially in the trillions, and would be re-invested in the USA on top of new foreign funds.

Australia's numbers may not yet be as good due to our Senate, because we have a Labor Government blocking all and any attempts to fix the debts and problems they, and the unions created. I am not a great lover of the Libs either at the moment but they are maneuvering and getting legislation through our broken senate.

The recent $100m for exploration benefits announced over the weekend for Greenfield explorers will be gone in one gulp, and not nearly enough to do anything meaningful for the junior end.

However the Australian Financial Review is bullish with their comments that:

Australia's economy is set for a bumper second half of 2017, with the best manufacturing conditions in 15 years, rising demand for Australian exports including rising iron ore prices and other commodities. GDP Growth is expected to grow from 1.9% to 3.3%, it is expected the RBA will keep the interest rates on hold at 1.5%, and the underlying cash balance for 2016/17 is expected to be a $30b deficit, $8 billion less than expected. Small steps but that is where it starts. "The longest march starts with the first step".

Another item of importance happening in October is the Chinese Congress and the Communist party choice of leaders. There is serious concern about the Chinese debt position while there are those that believe China will continue to grow at 6% plus and the debt can be handled like every other country, provided they can continue their growth rates. An excerpt from a newsletter:

"The 19th National Congress of the Communist Party of China, CCP, will commence on October 18, a little over six weeks from today. This will be the most important CCP meeting since the death of Mao Zedong and the rise of Deng Xiaoping in the late 1970s.

Communist societies such as China have a dual or parallel government structure. On one side is a normal government with a president, vice premier, cabinet ministers and other subordinate posts. On the other side is the CCP leadership consisting of a General Secretary, Politburo Standing Committee, Politburo, and Central Committee.

The seven-member Politburo Standing Committee runs the CCP. The General Secretary is the single most powerful person in the leadership. The conventional government is controlled by the CCP, which holds the real power.

In recent decades, the General Secretary serves two five-year terms, and is then succeeded by another member of the Standing Committee. At the end of the first five-year term, the Standing Committee elevates one or two candidates who are most likely to succeed the General Secretary at the end of his second term.

The process is carried out in secrecy and decisions are arrived at by consensus. The process is designed to insure smooth transitions and to avoid the cult of the individual that surrounded Mao Zedong.

General Secretary Xi Jin ping is trying to upend these traditions. He will certainly be reappointed to a second five-year term next month. But, the standing committee may not elevate likely successors, or may appoint a weak placeholder who will do Xi's bidding. This would pave the way for Xi to become the new "big man" and the most powerful General Secretary since Mao Zedong.

Since China itself is far richer and more powerful than at any time during Mao's reign from 1949 to 1976, Xi would be the most powerful Chinese ruler since the early Qing Dynasty, and the Manchu emperor Shunzhi in 1644.

With so much at stake for Xi, investors can be sure that no one in China will be allowed to "rock the boat" before October. The currency should remain stable against the U.S. dollar at least until then in order to avoid acrimony with the United States.

China may be able to maintain a fixed exchange rate until October partly by keeping the capital account closed until then. But, what about high interest rates? Leading Chinese analyst Leland Miller in his China Beige Book report explains that actual credit conditions in China are not as tight as benchmark rates make them seem:

China therefore did not overcome tighter first-quarter credit to achieve its growth result, but rather capitalized on the loosest conditions since 2013.

Investors may be justified in assuming that Beijing will seek to quash any fallout until after the Party Congress next month. But they should be equally clear that what we are seeing now is not a recovery, and it is certainly not an acceleration.

Bad debts are still piling up. Stress on the reserve position and the exchange rate remains. Yet, China has the policy levers and political muscle to force a stable outcome until Xi's position is solidified in October.

After that, investors should brace for a financial earthquake from China that will reverberate around the world.

The elements of an epic credit and currency crisis are all in place. China's reserve position of $4 trillion in 2014 has now shrunk to about $3 trillion. Approximately $1 trillion of that is in illiquid investments, such as the CIC portfolio, or is committed to long-term lending via NDB, AIIB, and the One Belt, One Road initiative.

That leaves about $2 trillion in liquid reserves to do damage control. About $1 trillion of that will be needed to clean-up the banking system as state-owned enterprises (SOE) and wealth management products' (WMP) bad debts come home to roost. That leaves only $1 trillion to defend the exchange rate.

Based on the rate of capital outflows in 2016, a $1 trillion war chest will be exhausted in less than a year. Reserves do not flow out in a linear way, but accelerate as the absolute level of reserves drop. Outflows could start at $50 billion per month, but quickly accelerate to $100 billion per month as liquid reserves approach zero.

This leaves only one way out for China: a maxi-devaluation of the yuan. A drop of 20% against the dollar, to a level of 8.50 to one dollar, would be viewed as sustainable. That should halt capital outflows.

Once the yuan is devalued, interest rates could be lowered to stimulate growth and keep the jobs machine humming. China will abandon one leg of the impossible trinity (a fixed exchange rate) in order to preserve the other two (open capital account, and independent interest rate policy)."

For Australia.............lets hope they succeed.

Note the similarity of the below chart to the previous one, the Volatility spiked in August, and pulled back without much effect on the ASX 200 which just kept moving along its narrow trading range. Also note the reduction in the PE's to 15 in the major indexes compared to 17+ previously. Any further reduction to around 12 will be a buying signal. Sorry about the clarity of the chart and data but I will do better next time. I think the VIX at around 15 to 16 and the ASX around 5600 or less is the time to get serious about buying, allowing for overshooting in October.

AUSTRALIAN DOLLAR

EXCHANGE RATES

	sell/buy		sell/buy
US, dollar	0.7931/0.7932	Norway, krone	6.176/6.1808
UK, pound	0.6141/0.6144	Pakistan, rupee	83.35/83.57
Europe, euro	0.6675/0.6678	Papua NG, kina	2.4582/2.5922
Brunei, dollar	1.0762/1.0772	Philippines, peso	[illegible]
Canada, dollar	0.9884/0.9889	Saudi Arabia, riyl	2.9741/2.9748
China, yuan Renminbi	5.2189/5.2201	Singapore, dollar	1.0765/1.077
Denmark, kroner	4.965/4.9565	Solomon Is, dollar	5.9287/6.3206
Fiji, dollar	1.583/1.6171	S Africa, rand	10.3004/10.306
Fr Pacific, franc	79.62/80.34	Sri Lanka, rupee	121.106/121.241
Hong Kong, dollar	6.2064/6.2073	Sweden, krone	6.3254/6.3293
India, rupee	50.743/50.753	Switzerland, franc	0.7619/0.7623
Indonesia, rupiah	10581.54/10584.46	Thailand, baht	26.31/26.33
Japan, yen	87.39/87.41	Tonga, pa'anga	1.627/1.737
Malaysia, ringgit	3.3857/3.3886	W Samoa, tala	1.891/1.985
N Zealand, dollar	1.108/1.1086	Gold - 1 oz.	1663.03/1661.86

Source: Thomson Reuters — Sep 1, 2017

VOLATILITY GRAPH — A-VIX

ASX P/E RATIO & DIV YIELD SERIES

Source: ASX Research

Index	Price/Earnings ratio series Aug 29	Aug 22	Aug 15	Dividend Yield series Aug 29	Aug 22	Aug 15
All Ordinaries	15.39	15.93	16.81	4.39	4.30	4.17
S&P/ASX 20	15.20	15.96	17.07	5.15	5.01	4.79
S&P/ASX 50	15.18	15.96	16.91	4.76	4.62	4.43
S&P/ASX 100	15.49	16.06	17.09	4.55	4.43	4.27
S&P/ASX 200	15.42	16.04	17.02	4.48	4.35	4.20
S&P/ASX 300	15.42	15.98	16.92	4.42	4.33	4.19
S&P/ASX Midcap 50	17.44	17.26	18.19	3.45	3.38	3.34
S&P/ASX Small Ords	14.90	15.39	15.67	3.47	3.55	3.57
Consumer Discretionary	14.65	16.44	16.16	3.53	3.45	3.54
Consumer Staples	19.49	24.82	50.19	3.95	3.72	3.48
Energy	17.11	16.60	21.36	2.87	2.90	2.56
Financials	14.49	15.05	15.30	5.68	5.49	5.43
Financial-x-A-REIT	14.49	15.05	15.30	5.68	5.49	5.43
Health Care	28.01	28.11	27.56	1.85	1.80	1.82
Industrials	15.41	16.09	16.52	4.54	4.44	4.39
Info Technology	27.93	27.34	29.18	2.53	2.65	2.51
Materials	15.96	16.10	19.61	3.70	3.31	3.03
A-REIT	7.65	8.07	8.32	5.12	4.95	5.02
Telecommunications	12.21	12.52	10.42	7.28	7.13	6.56
Utilities	31.87	30.92	31.47	5.54	4.58	4.48

NOTE: Dividend Yield series includes companies making losses but paying dividends.

MH AFRGA1 A009

In the meantime :

Disclaimer and Disclosure: The information in this newsletter is confidential and may be privileged or subject to copyright. It is intended for the exclusive use of the addressee(s). If you are not the addressee, please do not copy, distribute or otherwise act on the newsletter. If you have received the newsletter in error, please contact the sender immediately and delete the email. The unauthorized use of this newsletter may result in liability for breach of confidentiality, privilege or copyright. New York Securities Pty Ltd AFSL 317392 its Directors and their Associates declare that they from time to time hold interests in/and earn brokerage, fees, commissions or other benefits from the financial products and companies mentioned in documents to clients. Any financial product advice contained in this newsletter is unsolicited general advice only and has been prepared without taking account of your objectives, financial situation or needs. Before acting on general advice, you should therefore consider the appropriateness of the advice having regard to your objectives, financial situation and needs. We recommend you obtain financial, legal and taxation advice before making any financial investment decision. New York Securities Pty Ltd believes that any information or advice (including any financial product advice) contained in this document was accurate when issued. However, New York Securities Pty Ltd does not warrant its accuracy or reliability. New York Securities Pty Ltd, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.