New York Securities Pty Ltd

Trade Wars - Stock Market's Deleveraging and More…

Things that drive the Stock Market, Property and Bonds

The Interest rate cycle

The trade in Bonds and Treasuries are enormously larger than the Stock Markets, and as we have outlined previously, a falling interest rate cycle is because of bad economic conditions. Governments and Central banks actively reduce interest rates to encourage investment and economic activity, mostly driven by Politics or events to rectify reckless actions by a previous government.

We have been through that cycle for approximately 10 years, and as a result of selected economies slowly recovering and in particular the USA as a result of Trumps actions, the Central banks now want to move to increase interest rates to what they state is normal conditions. Normal conditions could be interpreted as 3 – 4% for Cash Rates, which are currently 1.5% in both the USA and Australia, but expected to rise in the near future. Albeit having said that, Australia has retained the 1.5% cash rate as of the 6th March 2018 meeting.

Hence, because of indicated Inflation numbers both countries are expecting to raise interest rates modestly but progressively to "normal conditions" over the next 2-3 years.

If done appropriately and under the right circumstances and they do not overshoot, as some Bureaucrats have a tendency to do, then the world will slowly absorb these increases, albeit with reactions in the stock market, property market and the bond market.

This is where we are now. In a rising interest rate cycle and hoping the bureaucrats do not over do it.

**Higher interest rates also strengthen the US$** which determines the price of Metals and in particular Gold, although they have at times not affected Gold. A strong dollar has a negative effect on Gold and Metals as well as Oil as other countries currencies become weaker and it costs them more in US$ to buy any commodities priced in US$.

No reasonable thinking person could expect the interest rates of current levels can be sustained forever. The downside is the markets will have a number of jolts and then recover over the journey. Higher interest rates are good for people who save, but bad for borrowers, and even worse for people who over leverage their borrowing and cannot afford the debt based on normal rates. This is the trouble spot for housing and young people who borrow today and may not have additional wages to meet the increased interest rates.

First, the scare of Inflation as a result of the great employment numbers in the USA, being translated into increased Interest rates, which has been well and truly telegraphed and documented, and hence the first crash of the Markets. This was anticipated and was being absorbed by the market which would have recovered had it not been for Trumps forecast Trade Tariffs beyond washing machines and solar panels etc.

National Security was the reason given for the 25% tariff on Steel and 10% on Alumina imports and it may very well be part of it, but I suspect it is a number of reasons:

Trump is currently renegotiating the NAFTA agreement with Canada, and Mexico who he wants to pay for the Wall. Steel imports come in mostly from Canada, and Mexico to a lesser extent, hence my belief it is a negotiating tool in that instance. However the security reason may very well be the result of anticipating USA does not yet have sufficient internal production of Steel and Alumina for a war effort of planes and other military equipment without reliance on external parties. Plus of course trying to create more employment in those states he will be appealing to for votes in the Mid Term November 2018 elections. Without control of the lower house or senate he will be severely restricted in getting his next set of economy boosting measures through which will include cutting back on excessive welfare, misuse or over use of Medicaid and cutting back on Government spending.

Tariffs are nothing more than taxes and this will generate massive income to the Government to reduce the $21trillion debt or at least an annual deficit, but at the expense of US citizens and voters in his own camp. A big call !

China currently controls nearly all Rare Earth supplies and processing which is used in new Technology and Military equipment. USA needs to rectify this.

Russia has increased its bellicose narrative as it approaches its elections in 3 weeks, even if the result is a foregone conclusion, as well as stating it has an invincible Nuclear arsenal the USA could not defend itself or its NATO allies against.

They continue to destabilise the Mid East and assist North Korea to pull the USA's nose.

China is taking control of the South China Sea, building armed settlements on the disputed islands and declaring the area off limits to anyone because the area is apparently massively rich in Oil & Gas.

China has been lending large amounts of money to various poor nations to build infrastructure in strategic areas of Interest to China. They have been quietly repossessing and taking control of Ports and Islands in Africa, Maldives and elsewhere as a result of defaults on loans. Where are the World Bank, International Monetary Fund and the United Nations while this is happening? All the while China is building much bigger navel fleets, and more technically advanced weapons in all areas, while at times cozying up to Russia when it suits.

Russia's economy is not much bigger than Australia's, but they are aggressive, heavy on nuclear equipment, trying to re-establish the old Soviet Union by taking back ("Annexing") the old soviet countries by stealth, like Crimea and Georgia.

The USA is becoming independent of Energy and Oil because of fracking. Gas prices are so low they can compete on energy costs to manufacture steel, and especially aluminium which requires large amounts of cheap energy.

China is a bigger challenge because of their increasing economy (the second biggest as a result of overcoming Japan), nuclear capability, and they are making some very clever moves globally with Global ambitions, specifically in the South Pacific.

The fact that XI the head of China has just been granted a lifetime leadership tells you he is moving towards a dictatorship along the same lines as Russia.

The only countries able to possibly stabilise these moves are India, Japan, Philippines, Vietnam and Australia acting in concert, and we can expect to see this in the near future, all of whom have to be aided by the USA.

Hence I suggest the use of National Security reasons by Trump for the Tariff War.

Add in North Korea where China really does not have any interest in assisting the USA, so USA has now considered maybe a Trade War with China and Russia with substantial financial sanctions applied to both, with ever more increasing handcuffs, which is currently happening, is the lesser of two evils and another bargaining tool. Trumps bluffing and threats look to have got the desired results as North Korea are now wanting talks ....or just a delay !!

Russia is definitely under the pump as they are pretty much an oil only income earner. They do mine a lot of Gold and retain it and use what funds they have to buy more, as does China.

They both need to build large Gold reserves to use for Trade purposes to avoid the USA Dollar and banking sanctions, at the same time as building independent Ledger Systems (Block chain) to avoid the USA banks.

So where does that leave us?? In a very volatile and dangerous world, unless Trump and the USA have sufficient power to remind both Russia and China to play nicely. The US congress recently approved one of the biggest ever funding packages for a Military buildup and nuclear modernisation for America.

China already imposes tariffs on some USA goods (as well as steals Intellectual Property). Europe and other countries impose tariffs on USA goods, and Trump is just returning the favour for a number of reasons. Trumps whole persona is to keep people off balance and not let them understand him or his next move, and use this in his bargaining practices. Every now and then he proves he is not bluffing by dropping the mother of all bombs on Afghanistan or sending cruise missiles into Syria and giving the Russians an hour to get their guys out.

Europe is threatening to impose tariffs on USA goods and Trump is threatening now to impose tariffs on all German goods and cars (BMW's, Rolls Royce's and Mercedes).

Wherever it ends, hopefully not militarily, there is going to be an awful lot of volatility in our markets and the Global markets.

In addition we have all of the Central banks who have been lending cheap money and buying Bonds and other assets off Banks, to keep interest rates low, now bringing this to an end as a result of the strength of the US Economy. The US Central Bank has warned of rising interest rates and **deleveraging** of its some $4 trillion of assets. IE: selling the assets, Bonds and treasuries into the market and as a result will take back cash and tighten up liquidity of the private sector.

People believe China, who holds some trillion of US $ treasuries, will dump them and as such will force up yields on those and other securities, forcing up the rate the US government must pay on its debt borrowings. This may be so but it also depreciates the value of their remaining assets and a very large loss. Catch 22.

Trump believes he can beat them all using the power and strength of the US monetary system and military. We can only hope.

That's enough on Global issues which will affect all and every person who invests around the Globe, and fortunately there will always be two views of the reactions with opportunities created.

There will be an overreaction initially while all players consider the implications on their countries and investments. In the meantime Trump is definitely forcing the Leftie Politicians in Europe and elsewhere to consider their positions as he will force them to the right of centre, or at least hopefully to the centre, and force on them to lower tax rates and smaller governments eventually as lower taxes mean less waste.

Italy just held its elections, with the centre and right of centre winning the most votes, and proves this action is coming for Europe as a whole.

Whatever happens, **Gold** is going to be front and centre as all this unfolds and we need to consider the safe haven assets even though they are already in some cases trading at high PE's. But if the market drives quality stocks down in the short term, great buying opportunities will be created and we need to take advantage of them.

The problem Australia has is outlined in the 'chart of the week' below on the huge buying of Australian commodities by China.

Who will give in first.................. the producer who needs the cash ....or China who cannot survive without the imports??

My previous commentary on the Converging and Diverging of the S&P/ASX 200 and the VIX (Fear Index) has finally taken place, and may now overshoot in the opposite direction for awhile. Or not ?? but at least the theory still stands albeit being delayed by Trump.

AUSTRALIAN DOLLAR

EXCHANGE RATES

	sell/buy		sell/buy
US, dollar	0.7756/0.7761	Norway, krone	6.0851/6.0875
UK, pound	0.563/0.5633	Pakistan, rupee	85.73/86.14
Europe, euro	0.6323/0.6327	Papua NG, kina	2.4547/2.5781
Brunei, dollar	1.0258/1.0311	Philippines, peso	40.236/40.282
Canada, dollar	0.9957/0.9954	Saudi Arabia, riyl	2.9091/2.9103
China, yuan Renminbi	4.9251/4.9274	Singapore, dollar	1.0253/1.0262
Denmark, kroner	4.7097/4.7116	Solomon Is, dollar	5.9312/6.1102
Fiji, dollar	1.562/1.5859	S Africa, rand	9.21/9.2215
Fr Pacific, franc	75.56/76.35	Sri Lanka, rupee	120.389/120.513
Hong Kong, dollar	6.0729/6.0755	Sweden, krona	6.3984/6.4012
India, rupee	50.591/50.626	Switzerland, franc	0.7289/0.7293
Indonesia, rupiah	10665.86/10677.75	Thailand, baht	24.4/24.42
Japan, yen	82.05/82.09	Tonga, pa'anga	1.603/1.731
Malaysia, ringgit	3.0353/3.0396	W Samoa, tala	1.93/2.016
N Zealand, dollar	1.067/1.068	Gold - 1 oz.	1699.6/1697.95

Source: Thomson Reuters — Mar 2, 2018

VOLATILITY GRAPH — A-VIX

ASX P/E RATIO & DIV YIELD SERIES

Source: ASX Research

Index	Price/Earnings ratio series Feb 27	Feb 20	Feb 13	Dividend Yield series Feb 27	Feb 20	Feb 13
All Ordinaries	16.05	15.57	15.42	4.17	4.24	4.29
S&P/ASX 20	15.74	15.01	14.98	4.90	4.99	5.08
S&P/ASX 50	15.73	15.03	14.97	4.57	4.67	4.74
S&P/ASX 100	16.09	15.47	15.35	4.33	4.41	4.47
S&P/ASX 200	16.16	15.66	15.49	4.23	4.30	4.35
S&P/ASX 300	16.10	15.60	15.43	4.20	4.28	4.33
S&P/ASX Midcap 50	18.14	18.18	17.62	3.11	3.11	3.12
S&P/ASX Small Ords	16.10	16.51	16.03	3.34	3.34	3.31
Consumer Discretionary	15.96	15.19	13.90	3.44	3.55	3.46
Consumer Staples	24.69	20.80	20.47	3.78	3.77	3.83
Energy	16.10	15.08	17.59	3.36	3.29	2.77
Financials	14.59	14.11	14.06	5.49	5.63	5.64
Financial-x-A-REIT	14.59	14.11	14.06	5.49	5.63	5.64
Health Care	30.23	28.53	28.83	1.55	1.59	1.62
Industrials	15.88	46.51	15.36	4.30	4.39	4.50
Info Technology	45.18	46.51	45.15	1.77	1.71	1.77
Materials	18.79	17.49	16.95	3.58	3.60	3.45
A-REIT	7.55	7.82	7.80	5.09	5.18	5.19
Telecommunications	11.80	11.36	11.26	5.90	6.05	7.78
Utilities	23.37	23.69	22.54	5.30	5.02	5.28

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

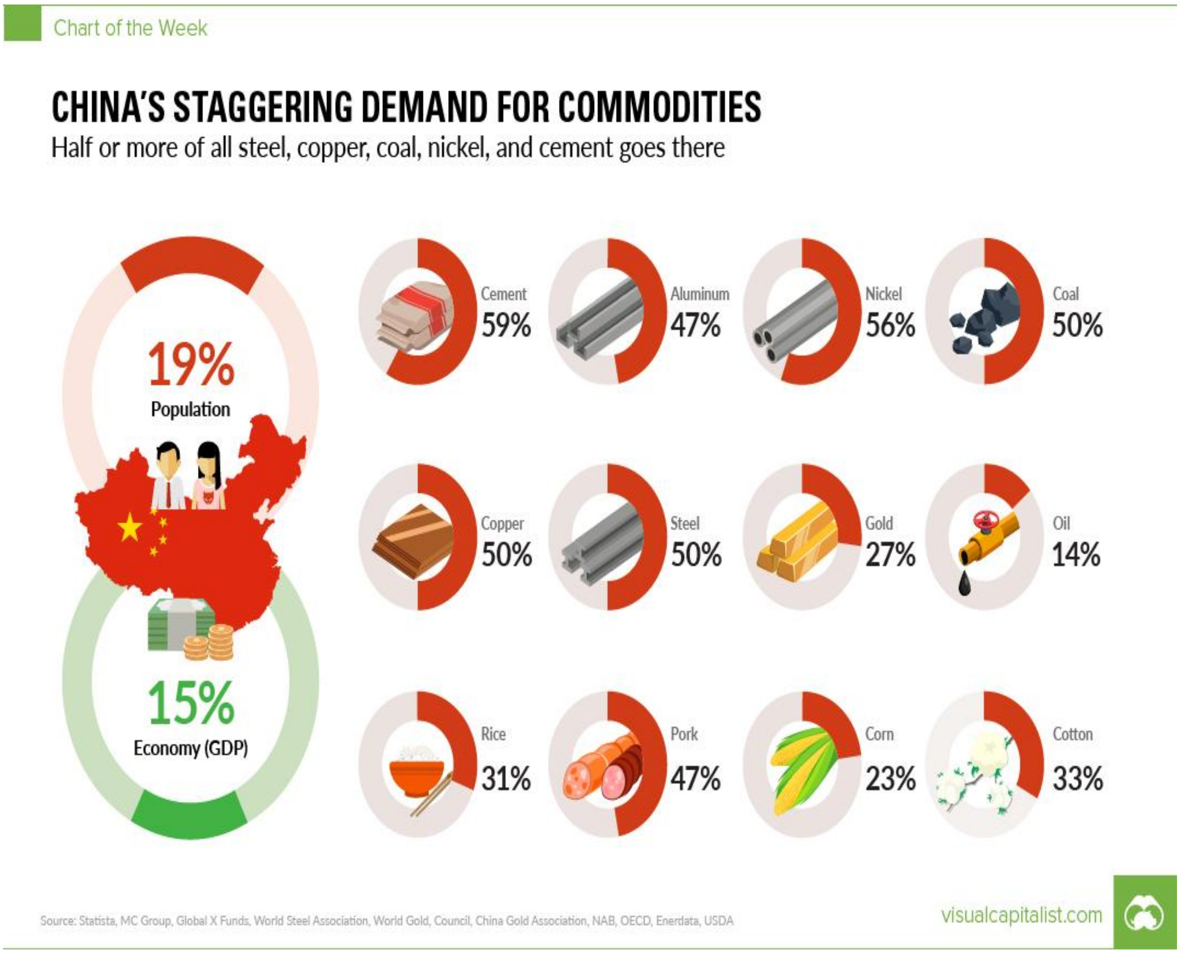
China's Staggering Demand for Commodities

>50% OF ALL STEEL, CEMENT, NICKEL, AND COPPER GOES THERE

The Chart of the Week is a weekly Visual Capitalist feature on Fridays.

It's said that in China, a new skyscraper is built every five days.

China is building often, and they are building higher. In fact, just last year, China completed 77 of the world's 144 new supertall buildings, spread through 36 different Chinese cities. These are structures with a minimum height of 656 feet (200 meters).



For comparison's sake, there are only 113 buildings in New York City's current skyline that are over 600 feet.

UNBELIEVABLE SCALE

It's always hard to put China's size and scope in perspective – and we've tried before by showing you 35 Chinese cities as big as countries, or highlighting the growing prominence of the domestic tech scene.

Today's chart also falls in that category, and it focuses in on the raw materials that are needed to make all this growth possible.

Year of data	Commodity	China's % of Global Demand	Source
2017	Cement	59%	Statista
2016	Nickel	56%	Statista

Year of data	Commodity	China's % of Global Demand	Source
2017	Coal	50%	NAB
2016	Copper	50%	Global X Funds
2017	Steel	50%	World Steel Association
2017	Aluminum	47%	MC Group
2016	Pork	47%	OECD
2017	Cotton	33%	USDA
2017	Rice	31%	Statista
2017	Gold	27%	China Gold Association, WGC
2017	Corn	23%	USDA
2016	Oil	14%	Enerdata

Note: Because this data is not all in one easy place, it is sourced from many different industry associations, banks, and publications. Most of the data comes from 2017, but some is from 2016.

CHINA DEMAND > WORLD

There are five particularly interesting commodity categories here – and in all of them, China's demand equals or exceeds that of the rest of the world combined.

Cement: 59%
The primary ingredient in concrete is needed for roads, buildings, engineering structures (bridges, dams, etc.), foundations, and in making joints for drains and pipes.

Nickel: 57%
Nickel's primary use is in making stainless steel, which is corrosion resistant. It also gets used in superalloys, batteries, and an array of other uses.

Steel: 50%
Steel is used for pretty much everything, but demand is primarily driven by the construction, machinery, and automotive sectors.

Copper: 50%
Copper is one of the metals driving the green revolution, and it's used in electronics, wiring, construction, machinery, and automotive sectors, primarily.

Coal: 50%
China's winding down coal usage – but when you have 1.4 billion people demanding power, it has to be done with that in mind. China has already hit peak coal, but the fossil fuel does still account for 65% of the country's power generated by source.

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There is constant criticism of possible tax cuts in Australia and real tax cuts in the US by people who state.............. **"but all that money will be used for Buying back shares or dividends to shareholders".**

My question to them is, do you think the money disappears?? It will go to fund managers, ETF's and shareholders, who reinvest it or spend it and add to the economy instead of being wasted on Pork Barrelling by Politicians. Who would you prefer to spend your money; the Government and politicians or you?

Daylight Saving and the ASX; This ridiculous farce ends on the first Sunday in April. Which results in the **ASX opening at 8am** in lieu of 7am and **closing at 2.15pm** in lieu of 1.15pm, providing me with an extra hour sleep in.

March is an odd Month as far as the market is concerned as Tax payments are due in March and April, and do have some effect on people and companies selling assets to meet their tax payments. **30th March** is the end of the **Japanese financial year**, and it is the end of a quarter, so a degree of window dressing by Fund Managers and ETF's take place with some distortions in the market.

And of course it brings the doom of **IDES OF MARCH** on the 15th March when Caesar was assassinated as a superstition.

But on the bright side it is the first day of autumn and it is Blue Berry season

In a recent Newsletter I suggested that the **food group RFG** may be worth buying on any pull back based on the Chart indicators and a dividend due within short time. I bought them not long after and got caught in the down draft by a Black Swan event of a series of events that wiped out the dividend and downgraded earnings. So the wait for a pullback was overdone and as happens, a short term trade could turn into a long term hold. I have 3 choices, average down which is risky until the true position is known, wait and watch or sell out. I suspect selling and taking the short term loss is preferable, and sit on the bench for now as I only went in with half of the proposed investment. But the stock appears to have bottomed and is now recovering??

IT - I do not know enough about Technology and especially if it is current or about to be replaced by more modern technology. But **BLOCK CHAIN** is something that is going to be real and around for a long time and change the World. It is nothing more than a real time ledger system that transfers assets and cash instantly around the World. The banks are moving into it and the ASX is currently testing it to take over from the CHESS system for instant delivery of shares onto your portfolio, and of course instant payment in cash. Hence this removes the liability of non-payment by individuals and traders for option trading (ETO's), share trading or other securities and assets.

And of course this gets confused with Bitcoin, but Block chain was the technology that allowed Bitcoin to be traded internationally

Cannabis Stocks - I have warmed to this sector having first scoffed at the Smoking marijuana view, but have always thought if an oil of something else made from Cannabis could alleviate kids and others from pain and autism or other medical complaints, then what could be wrong with this if it could be delivered cheaply and outside of the control of the large Pharmaceutical groups. The big part is trying to identify the real and genuine companies from those merely chasing paper profits from using the name or indeed have no experience in the field.

If you have an interest in the sector let me know and I will send you a small report I came across which is a start to analysing the sector before entering it.

AS ALWAYS: