Australian Monthly Wrap l February 2016

February economic wrap

Now the award for negative returns…And the Oscar goes to... February. The month of February saw a roller coaster of positive and negative returns, the S&P/ASX 200 ended the month down reporting a negative return of -2.5%, this was a first for February. Normally February has been the lucky month of bringing constant positive returns since 2010.

The materials sector seemed to be the overwhelming winner this month as it regained the losses it suffered in January, ending up +8.2%. Contrary to this was the banking sector which weighed heavily on market as it posted the worst fall out of all down -7.86%, in spite of solid results.

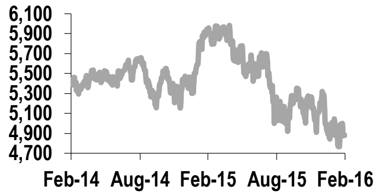
In the month of February there was a lot of conjecture in the lead up to the reporting season, it ended up being misplaced however, as companies showed better than expected earnings results. The prevailing theme however seemed to be that earnings growth by companies was mostly achieved via cost cutting, and slow organic revenue growth still appears to have continued to discourage capital expenditure.

Global markets also did not fare well, concerns over another recession like crisis loomed over the minds of investors and markets. This coupled with macro-economic weakness and policy inaction/effectiveness attributed to the negative performance. The MSCI World index fell by -1.0% and Emerging markets by -0.3%.

Key economic news – In Australia, the RBA held interest rates at 2%. The main spotlight in February was in tax reform, both the government and opposition proposed what they would reform and not reform. The Labor opposition spoke about phasing out negative gearing and promised to half capital gains to 25%. The Liberal government ruled out, increasing the GST, or touching negative gearing and capital gains. Superannuation seems to be the only option left on the table. Unemployment over the month increased by around +0.2% to 6% and the AUD managed to perform well against the USD by +0.9%.

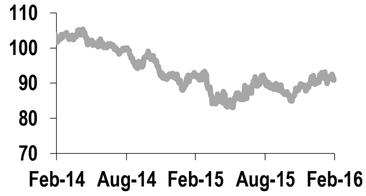
Key company news – Through the month of February we saw companies exceed expectations in reporting season to post some positive returns, there were however some that fell short in which case the market was not kind to them. BHP & RIO were stand outs, as they made the decision to cut their dividends. Woodside Petroleum WPL announced a fully underwritten DRP, in the hopes to raise AU$490m, shareholders who participate would be issued shares at a 1.5% discount. WOW's first half results were hijacked by its poor performance in its Home improvement business.

S&P/ASX 200 Price Index



Source: Bloomberg, IOOF

MSCI Australia relative to MSCI Asia Pacific ex Japan, US$ terms



Source: Bloomberg, IOOF

Sector and stock returns%

	ASX/S&P200 Sectors (GICS)				Best and Worst S&P/ASX200 Performers			
	Monthly	%∆	Quarterly	%∆	Top five stocks		Bottom five stocks	
▼	Consumer Discretionary	-2.32	Consumer Discretionary	1.93	Monthly			
▼	Consumer Staples	-5.70	Consumer Staples	0.84	Mineral Resources	+55.3%	Ozforex Group	-38.9%
▼	Energy	-1.25	Energy	-14.33	Beach Energy	+41.3%	Programmed Maint. Serv.	-34.8%
▼	Financials ex Property	-7.86	Financials ex Property	-13.03	Newcrest Mining	+35.9%	Isentia Group	-23.9%
▼	Financials	-6.21	Financials	-10.15	Whitehaven Coal	+34.2%	Village RoadShow	-23.4%
▲	Health Care	0.64	Health Care	-1.36	Oz Minerals	+33.7%	Cover-More Group	-23.0%
▲	Industrials	5.75	Industrials	1.74	Quarterly			
▼	IT	-5.70	IT	-7.98	Northern Star Resources	+60.5%	Select Harvests	-53.5%
▲	Materials	8.20	Materials	-0.97	Newcrest Mining	+60.4%	Programmed Maint. Serv	-50.2%
▲	Property Trusts	1.99	Property Trusts	5.50	Evolution Mining	+56.3%	Liquefied Natural Gas	-48.3%
▼	Telecommunications	-5.53	Telecommunications	-0.82	Seven West Media	+39.7%	Ozforex Group	-44.6%
▲	Utilities	0.58	Utilities	3.41	Pacific Brands	+35.8%	Spotless Group Holdings	-44.2%

Source: Bloomberg, IOOF

Equity review

Major Market Performance, February 2016

	Australian Indices	Mth	%∆	Qrt	%∆
▼	S&P/ASX 200	4881	-2.49	5167	-5.53
▼	All Ordinaries	4948	-2.15	5218	-5.18
▲	Small Ordinaries	2079	0.75	2101	-1.05
	US Indices				
▼	S&P 500	1932	-0.41	2080	-7.12
▲	Dow Jones	16517	0.30	17720	-6.79
▼	Nasdaq	4558	-1.21	5109	-10.78
	Asia Pacific Indices				
▼	Hang Seng	19112	-2.90	21996	-13.11
▼	Nikkei 225	16027	-8.51	19747	-18.84
	UK & Europe Indices				
▲	FTSE 100	6097	0.22	6356	-4.07
▼	CAC40	4354	-1.44	4958	-12.18
▼	Dax Index	9495	-3.09	11382	-16.58

Source: Bloomberg, IOOF

US equity market

The S&P 500 was down -0.41%. Underperformance came mostly from Banks down -6.9%, other sectors with negative performance were Financials down -3.2%, Energy down -2.6%, IT down -1.5% and Healthcare down -0.7%. Sectors which performed well over the month were Materials up 7.3%, Industrials +3.5%, Telco's up +2.7%, and Utilities up +1.4%.

Australian equity market

The S&P/ASX200 index finished the month down -2.5%.Sector performance was mainly in Materials up +8.2%, Resources up +6.3%, Industrials up +5.8% and REITs up +2.0%. Underperformance came from Banks down -9.1%, Financials down -7.9% and Consumer Staples down -5.7%. The February reporting season showed better than expected earnings.

Fixed Income

	Fixed Income	Mth	%∆	Qrt	%∆
	Aussie Cash Rate	2.00	--	2.00	--
▼	Aust 10-year Bond Rate	2.40	-8.96	2.86	-16.09
▼	Aust 3-year Bond Rate	1.73	-7.88	2.10	-17.58
▲	90 Day Bank Accepted Bills SFE-Day	2.28	0.88	2.25	1.33
▼	US 10-year Bond Rate	1.73	-9.69	2.21	-21.36
▼	US 3-year Bond Rate	0.89	-7.68	1.22	-26.90

Source: Bloomberg, IOOF

Over the month the Australian yield curve began to flatten. The Australian 3year bond rate was down by -7.88% and 10year down by -8.96%. Bond yields fell over the course of the month, the same occurred with the US 3year bond yield falling by -7.68% and 10year bond yield by -9.69%.

The declines in yields came from the continuing effects of January's BoJ surprise announcement of negative interest rates combined with global policy inaction/effectiveness.

Currencies

	Currencies	Mth	%∆	Qrt	%∆
▲	$A vs $US	71.50	0.93	72.32	-1.13
▲	$A vs GBP	51.39	3.33	48.11	6.83
▼	$A vs YEN	80.75	-5.91	89.07	-9.34
▲	$A vs EUR	65.75	0.52	68.49	-4.00
▼	$A vs $NZ	108.38	-0.81	109.96	-1.44
▼	$US vs EUR	91.96	-0.40	94.70	-2.89
▲	$US vs GBP	71.88	2.39	66.53	8.04
▼	$US vs CHF	99.66	-2.59	102.75	-3.01

Source: Bloomberg, IOOF

The Australian dollar appreciated by +0.93% against the USD, mostly due to strengthening commodity prices. We also saw the dollar appreciate among most global partners. The story was not the same against the Japanese JPY in which the Australian dollar sharply declined by almost -6.2%.

Commodities

	Commodities	Mth	%∆	Qrt	%∆
▲	Aluminium	1572	3.73	1447	8.66
▲	Copper	213	2.94	206	3.77
▼	Nickel	8496	-1.27	8907	-4.61
▲	Gold	1234	10.57	1066	15.80
▲	Silver	15	4.56	14	5.67
▲	Crude Oil - Brent	36	3.54	45	-19.37
▲	Lead	1752	1.82	1650	6.23
▲	Zinc	1763	8.68	1565	12.67
▲	Iron Ore	46.33	12.53	46.10	0.50

Source: Bloomberg, IOOF

Commodities were strong in the month of February. Iron ore rose, due to supply distractions coupled with the restocking by China. All base metals performed well with the exception of Nickel. Gold also rose as risks started to develop in the US and with emerging markets. Oil was another notable story over the month which performed well reaching a high of $35.94, oil futures also began to rise. This was primarily due to the agreement made in January by Russia, Iran and OPEC to reduce supply.

Australian Economy and the RBA

In January we saw the Reserve Bank of Australia leave interest rates on hold, this was surprising as unemployment went up over the month and the AUD continued to make small gains. The Governor opted not to make any further changes to the RBA's statement announcements for the month.

The Q4 private capital expenditure survey unexpectedly showed a rise in spending of +0.8%, contrary to this, companies estimated spending intentions were not so positive. We expect to see further cuts in the mining economy, but expect the non-mining part of the economy to be mostly flat.

In other parts of the Australian Economy we saw the Westpac Consumer confidence index rise by 4.2%, contrary to the negative expectations that were forecast. The result was supported by the low petrol prices which consumers are benefiting from.

In the mortgages space we saw home loan approvals increase by 2.6% while the values of the loans only increased by 0.9%. The share of new home loan mortgages sits at 34.7%. Building approvals also rose in the month of February by 9.2%, beating the expectations.

Australia's overall annual wage growth fell to 2.2% which was a low not recorded since 1998. Private sector wages growth grew by 2.0%, but public sector wage growth was recorded at growing by 2.6%, but on the whole not very strong.

US Economy

In the month of February the US Federal Reserve took no action as the minutes of the meeting hinted at downside risk bias.

GDP figures for Q4 showed growth in the US economy up by 1%. However CPI inflation began to firmly increase over the period.

Both building permits and new house starts were down. So too were new home sales. Unemployment however fell to 4.9% and labour force participation increased.

The growing theme was the strong US dollar which continues to hamper growth in the economy, the Markit manufacturing PMI report was weak, new orders, output and supplier delivery times were all growing issues for the weak business sector.

It just seems that there is confusion in the economy at this time, global pressures and growing bearish concerns seems to weigh on progress. Low oil prices have benefited the US consumer but it has not yet translated into economic recovery. Low oil prices can be a double edged sword for the US as it has halted CAPEX in shale oil production.

China

Over the month of February what continues to weigh on the Chinese economy and the CNY is further depreciation expectations, as FX reserves continued to fall.

The China banking Regulation Commission and PBOC (People's Bank of China) announced further easing of monetary policy and the Ministry of finance announced favorable tax policy, to include low transaction costs and lower business taxes.

PBOC announced over the month that it would allow access to foreign institutional investors to its onshore interbank bond market, which is another step forward in transitioning the Chinese economy.

Manufacturing over the month was relatively flat. With easing coming from output and new orders. We also saw export orders rise. Imports also roes especially in commodities as the Chinese government began to restock reserves. This was one of the factors as to why commodity prices rose over the month.

Europe

Over the month of February European equity markets took a slight slide. 4Q GDP in the Euro area grew by 1.1 %, but was slow compared to Q3's result of 1.9%.

Unemployment continued to decrease, but it was not positive for Consumer confidence as it fell from -6.3% to -8.8%. This was mostly attributed to market turmoil and political uncertainty in some Euro zone counties. Notably the only solid consumptions growth was in France.

The ECB continues its Quantitative easing program, the minutes from the February meeting seemed balanced. It would be interesting to see if there would be any adjustments to easing in the coming months.

The Spanish economy seems to have been quite robust in the current global growth slow down climate. In the Q4 GDP report the Spanish economy grew by 3.5%, which is a shining example of a euro country biting the bullet and continuing with its austerity measures, in which they seem to be reaping the benefits from.

Deflationary concerns are a growing issue in the EU, other risks however are still forthcoming as the migrant crisis continues to play out on the Macedonian and Greek border with no firm solution in place for counties that can't economically deal with the associated costs of the crisis.

Company news

Santos announced that proved plus probable (2P) petroleum reserves were 945mmboe as at the end of 2015, 24% lower than 2014. The impact of the lower oil price environment combined with asset divestments and 2015 production of 58 mmboe were the key factors in the reduction in booked reserves in 2015. Sales gas proved plus probable reserves decreased by 19% before 2015 production, primarily due to the adoption of lower oil and gas price assumptions and the consequent removal or reclassification of sub-economic projects. GLNG proved reserves increased 15% before 2015 production, while proved plus probable reserves were broadly in-line with the prior year. Contingent resources increased by 8% or 132 mmboe to 1.8bn barrels of oil equivalent.

Navitas announced that 18% year-over-year growth across its North American partnerships, surpassing its ambitious enrolment goals for the Spring 2016 intake. The Company's most recent partnership, Florida Atlantic University-which exceeded its inaugural enrolment goal by 19% last fall-continued an impressive growth trajectory, up 27% from the previous semester. The Company's partnerships accelerate the internationalization of universities by increasing the quality, quantity and diversity of the International student population. Its proven Pathway program model provides the necessary acclimatization that international students require, thereby ensuring their academic readiness for university-level study.

National Australia Bank provided 2016 first quarter trading update. Unaudited cash earnings for continuing operations were $1.7bn for the December 2015 quarter, which is 3% above the quarterly average of the September 2015 Half Year result and 8% up on the pcp. On a statutory basis, unaudited net profit attributable to the owners of the Company for the December 2015 quarter was $1.5bn. Revenue increased 2%. The charge for Bad and Doubtful Debts for the quarter fell 52% to $84m. The Group's leverage ratio as at 31 December 2015 was 5.4% on an APRA basis. The Group's quarterly average liquidity coverage ratio as at 31 December 2015 was 119%.

Brambles announced results for the half-year ended 31 December 2015. At constant currency, sales revenue was up 8%. Underlying Profit, which is a non-statutory measure of operating profit that excludes significant items, was US$474m, down 2%. Underlying Profit after tax was US$296m, down 2% (up 10% at constant currency). Return on Capital Invested was 14.7%, down 0.8% points (down 0.3% points at constant currency) reflecting the impact on capital invested of acquisitions since the start of 1H15. Cash Flow from Operations was US$260m, down US$8m. The Board has declared an interim dividend of 14.5cps, up 0.5c on each of the 2015 interim and final dividends, franked at 25% and payable on 14 April 2016 to shareholders registered on 11 March 2016.

UGL reported net profit after tax of $18.5m (HY15: $11.9 m) for the half year ended 31 December 2015. Operating revenue was $1.2bn (HY15: $1.2bn) and EBIT was $34.9 m (HY15: $28.7m). The Company and CH2M Hill project scope for Ichthys CCPP is 72% complete, with the construction component of the project 52% complete. Revenue in Rail & Defence was $482.5m in HY16, down on the comparative period largely due to reduced locomotive sales in the coal sector. The Board does not intend to declare a dividend for the 2016 financial year. The NorthConnex contract was secured during the period, where the Company, in alliance with the Lend Lease Bouygues JV, will deliver the mechanical, electrical, control, fire and communication systems for the new motorway.

Nufarm announced the completion of reviews of the manufacturing footprint and product portfolio. The performance improvement program is on track and management remains committed to delivering performance improvement benefits of at least $116m by full year 2018. The manufacturing footprint review, which is completed, has already led to changes. In November 2015, it was announced that the Calgary plant in Canada will be closed, with one-off costs of $9.5m. Underlying EBIT at the half-year is expected to be 8-13% ahead of the prior half-year, off the back of strong trading performance in January 2016. Underlying profit after tax at the half year will be $15m lower than the prior period, largely as a consequence of net foreign exchange losses.

Aveo Group announced it has exchanged contracts for the acquisition of 100% of Freedom Aged Care (Freedom). Freedom has been acquired, based on its balance sheet at 30 June 2015, for consideration of $215.5m plus acquisition costs comprising: The issue of $83.5m of scrip in the Company at $2.98 per security and a cash payment of $10m to the vendors; The assumption of $88m in debt owed to lenders; and Deferred payment of $34m in present value terms provided various performance conditions are met post-completion over a 4-year period. The acquisition will positively contribute to the Company's target of growing its return on retirement assets to 8% by FY18 and is accretive to the Group's earnings per security in FY17 and beyond. The Company's forecast underlying EPS growth will be at least 6% for FY17 and FY18.

BHP Billiton announced a new operating model that will create a more agile Company ready to respond to the challenges and opportunities presented by a rapidly changing global marketplace. Under the changes announced, it will become a much simpler organisation focused on geographic operating regions and supported by globalized functional services drawing upon world-class expertise and scale. The Company's minerals production operations will be organised into two regional units - Minerals Australia and Minerals Americas. The Company's oil and gas exploration and production operations will continue to be housed within a global Petroleum unit, reflecting the operating environment in that sector.

Qantas Airways reported an underlying profit before tax of $921m and a statutory profit before tax of $983m for the six months ended 31 December 2015. The Group continues to expand margins through both revenue growth and cost discipline. Revenue increased by 5% to $8.5bn, while total unit costs were down by 7% compared with the first half of last year. The Company Board has approved an on-market share buy-back of up to $500m. The buy-back will start in early March 2016. It has invested in aircraft, product, service and technology as a core principle of its transformation program, enabling the Group to earn record customer satisfaction, maintain its lead in key markets, and grow revenue at the same time as reducing cost.

Commonwealth Bank of Australia announced that it has completed the bookbuild for the offer of CommBank PERLS VIII Capital Notes. The Offer received strong demand from brokers to the Offer as well as institutional investors. The Group has allocated $910m of PERLS VIII on a firm basis under the Broker Firm Offer and the margin has been set at 5.20% per annum. This result includes significantly more applications for the new money component of the Broker Firm Offer than the $650m cap agreed between the Group and the Syndicate. Consequently, such applications were scaled back. The Group will continue to accept applications under the Reinvestment Offer (for Eligible PERLS III Holders) and Securityholder Offer.

Fortescue Metals Group announced a fully franked dividend of 3 cps for the period of six months ending 31 December 2015, with a record date of 4 March 2016 and a payment date of 7 April 2016. The Company's dividend reinvestment plan will apply to this dividend.

Ramsay Health Care announced half year results for the period ended 31 December 2015. The Company reported that core NPAT up 16.2% to $237.4m; core EPS up 16.9% to 114.1c. The Group reported revenue up 24.9% to $4.2bn and EBIT up 12.7% to $425.9m. The Company paid fully franked interim dividend of 47.0cps, up 16%. The Company has acquired a further nine hospitals in Lille, France which was completed in December 2015. In August 2015 the Company announced a strategic alliance with ICHOM (International Consortium for Health Outcomes Measurement). In the half year to December 2015. It has completed $126m worth of expansion projects delivering a total of 186 beds and 8 operating theatres.

South32 announced a series of restructuring initiatives that will reset the cost base of its Worsley Alumina, Illawarra Metallurgical Coal, Australia Manganese and Cerro Matoso operations. Operational performance at Worsley Alumina continues to be optimised following the completion of the US$3.2bn Efficiency and Growth project in June 2011, which positioned the operation as one of the largest refineries in the industry. Over the 18 months to the end of December 2015, Illawarra Metallurgical Coal reduced its employee and contractor headcount by 100 and operating unit costs, including sustaining capital expenditure and underground development, by 34%. As a result, guidance for manganese saleable ore production in FY17 is lowered by 4% to 5.2Mt (100% basis).

Woodside Petroleum announced that the Thalin-1A exploration well in Block AD-7 in the Rakhine Basin has intersected a gross gas column of 64m. 62m of net gas pay is interpreted within the primary target interval. Block AD-7 is located in the Bay of Bengal, 100km offshore of the west coast of Myanmar. Water depth at the Thalin-1A well location is 836m. The well reached a total depth of 3034m, referenced from the rig rotary table. Following drilling, wireline logging was conducted and confirmed the presence of a gas column through pressure measurements and gas sampling. The gas discovery at Thalin-1A follows an earlier gas discovery by the Company at the Shwe Yee Htun-1 well in Block A-6 announced on 4 January 2016.

Source. Morningstar

Movers and Shakers for February 2016

ASX Code	Company Name	Closing price ($)	Month ago close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago close ($)	Year Δ (%)
MIN	Mineral Resources Ltd	5.76	3.71	55.3	4.88	18.0	7.87	-26.8
BPT	Beach Energy Ltd	0.53	0.38	41.3	0.52	2.9	1.06	-50.0
NCM	Newcrest Mining Ltd	17.50	12.88	35.9	10.91	60.4	14.39	21.6
WHC	Whitehaven Coal Ltd	0.55	0.41	34.1	0.91	-39.2	1.61	-65.8
OZL	Oz Minerals Ltd	5.04	3.77	33.7	4.02	25.4	3.81	32.3
NST	Northern Star Resources Ltd	3.90	2.96	31.8	2.43	60.5	2.36	65.3
CIM	Cimic Group Ltd	31.56	24.07	31.1	25.05	26.0	22.03	43.3
AWC	Alumina Ltd	1.35	1.04	30.0	1.13	19.6	1.84	-26.9
PRY	Primary Health Care Ltd	3.19	2.46	29.7	3.21	-0.6	4.72	-32.4
S32	South32 Ltd	1.25	0.98	28.2	1.19	5.0	N/A	N/A

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago close ($)	Year Δ (%)
OFX	Ozforex Group Ltd	1.91	3.12	-38.9	3.44	-44.6	2.41	-21.0
PRG	Programmed Maintenance Serv	1.31	2.01	-34.8	2.63	-50.2	2.43	-46.1
ISD	Isentia Group Ltd	3.51	4.61	-23.9	4.44	-20.9	3.30	6.4
VRL	Village Roadshow Ltd	5.31	6.93	-23.4	6.69	-20.6	5.55	-4.3
CVO	Cover-More Group Ltd	1.52	1.98	-23.0	2.19	-30.6	2.01	-24.4
BEN	Bendigo And Adelaide Bank	8.56	10.74	-20.3	11.16	-23.3	12.82	-33.2
TGR	Tassal Group Ltd	3.84	4.81	-20.2	4.39	-12.5	3.75	2.4
SUL	Super Retail Group Ltd	8.14	10.19	-20.1	10.41	-21.8	9.65	-15.6
SHV	Select Harvests Ltd	4.28	5.32	-19.5	9.21	-53.5	7.27	-41.1
BOQ	Bank Of Queensland Ltd	10.55	13.09	-19.4	13.66	-22.8	13.96	-24.4

Source: Bloomberg, IOOF