

Beijing retaliation sparks ASX sell-off

Equities

William McInnes

Australian shares plummeted to a four-week low on Tuesday after China retaliated to tariffs imposed by Washington by issuing its own duties on US shipments into the country.

The S&P/ASX 200 Index fell 57.7 points, or 0.9 per cent, to 6239.9 while the broader All Ordinaries declined 54.1 points, or 0.9 per cent, to 6327.2.

Global investors were sent scrambling after Beijing announced it would increase tariffs on \$US60 billion (\$83 billion) worth of US shipments by "25, 20 and 10" per cent from June 1.

"The trade war between the US and China has returned after talks to resolve their trade differences broke down," AMP Capital chief economist Shane Oliver said.

"Our base case remains that a deal will be reached to resolve the issues, but the risks to global growth are now higher and sharemarkets may need to fall further in the short-term to remind both sides of the need for a deal," Oliver said.

On the local market, the financial sector extended its declines from the previous session, as the major banks weighed down the market.

NAB lost 4.7 per cent to close at \$24.24 after trading ex-dividend, Commonwealth Bank slid 1.3 per cent to \$72.57, ANZ closed the session 1.3 per cent lower at \$26.10 and Westpac fell 0.8 per cent to \$26.90.

Macquarie Group lost 2.2 per cent, finishing at \$117.50, Insurance Australia Group fell 1.8 per cent to \$7.82 and QBE Insurance declined 1 per cent to \$12.50.

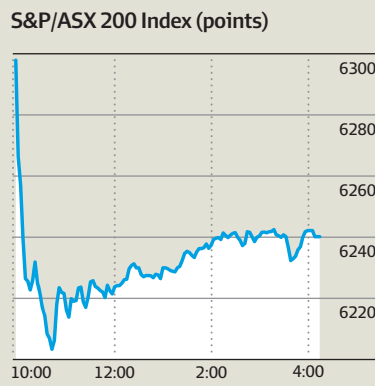
Growth stocks were also among the hardest hit on Tuesday.

Wisetech Global slid 2.2 per cent to \$21.30, Afterpay Touch lost 0.7 per cent to finish the session at \$26.00, Altium declined 1.6 per cent to \$30.82, Nearmap dropped 3.9 per cent to close at \$3.43 and Xero ended the session at \$53.75, down 1.5 per cent.

Mayne Pharma declined 15 per cent to 56.5¢ after reporting a 32 per cent fall in revenue from its generic products segment between January and April. The company's shares touched their lowest level since January 2015 early in the session before recovering slightly through the day.

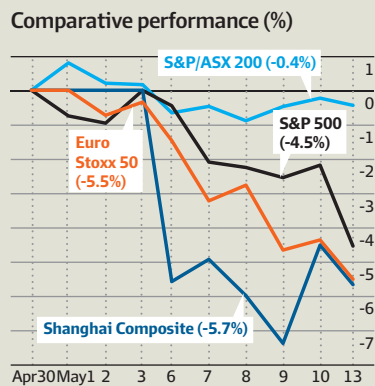
Overview

Markets roundup Tuesday



Sector performance (%)	
Materials	+0.24
Cons staples	+0.19
Comms services	-0.37
Utilities	-0.46
Real estate	-0.49
Cons disc	-0.99
Healthcare	-1.07
IT	-1.14
Industrials	-1.18
Energy	-1.21
Financials	-1.78

Chart of the day



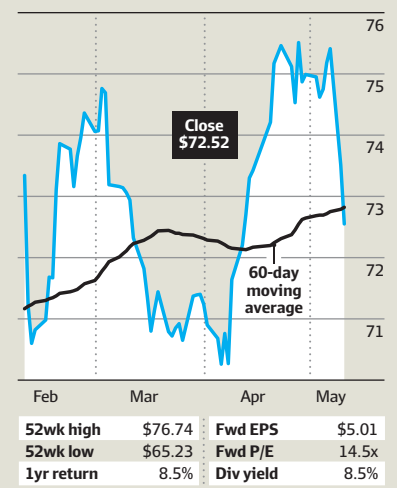
Best and worst stocks (%)	
Fortescue Metals	+7.44
Evolution Mining	+7.21
Regis Resources	+6.79
NRW	+6.05
Northern Star	+4.30
Saracen Minerals	+4.25
Mayne Pharma	-15.04
Reliance Worldwide	-6.94
IIOF	-6.01
NAB	-4.68
Nufarm	-4.13
Orocobre	-4.05

Stock watch

Commonwealth Bank

Bell Potter reduced its price target on Commonwealth Bank following the bank's trading update on Monday which said net profits had been hit by \$714 million of additional pre-tax customer remediation and program provisions. In response, the broker reduced its own profit forecast by 12 per cent, given the material notable items and higher loan impairments. Analyst TS Lim said subsequent years' forecasts had been lowered by 5 per cent on the back of rebasing non-interest income and credit quality expectations. Bell Potter reduced its price target from \$76 to \$73, maintaining its "hold" recommendation.

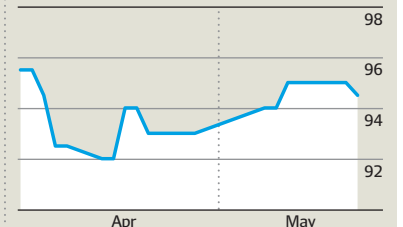
CBA share price, daily (\$)



Swiss franc/\$US (US¢)



Iron ore (\$US/tonne)



SOURCE: BLOOMBERG

What moved the market

ASX

The Australian sharemarket has been resilient during May as most other major global markets have slipped. The S&P/ASX 200 Index is down just 0.4 per cent so far. The S&P 500 has dipped 4.5 per cent and the Euro Stoxx 50 has slid 5.5 per cent. The Shanghai Composite has been among the globe's worst performers, falling 5.7 per cent for the month of May so far. Among the major global sharemarkets, only New Zealand has performed better than Australia as the country's central bank cut its official cash rate last week.

Iron ore

Vale's plan to reach 400Mt per annum of iron ore production in the next two to three years is ambitious, according to analysts, as the Brazilian miner struggles to return to the target level it set itself for 2019. "The forecast carries risk, not only because it is ambitious, but because it suggests that Brazilian regulators will eventually be satisfied with the safety measuring being undertaken at certain mines and dams," said CBA analyst Vivek Dhar. He thought it would take the miner at least three years to return to its 2019 target.

Swiss franc

The Swiss franc benefited from Monday's tit-for-tat trade escalation as foreign exchange investors pumped money into more safe-haven currencies. The Swiss franc rose 0.5 per cent against the US dollar, hitting its highest level against the greenback in almost a month. The franc is widely seen as a safe-haven currency alongside the Japanese yen, due to the stability of both the Swiss government and its financial system. The country's lower inflation rate is also attractive.

Weak jobs growth

NAB's April business survey showed the economy is continuing to weaken with employment conditions weakening to their lowest level since January 2016. The poor employment conditions hint at weakness in the labour market which could show through in this week's official economic data. "As we have highlighted previously, the key question is how the economic slowdown and the loss of business confidence will impact business spending decisions," said Westpac senior economist Andrew Hanlan.

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Tech stocks plunge in melting global market

Locally listed tech stocks also fell on Tuesday. Altium declined 1.6 per cent to \$30.82, Wisetech Global slid 2.2 per cent to \$21.30, Afterpay Touch lost 0.7 per cent to close at \$26.00, Nearmap went down 3.9 per cent to \$3.43 and Xero slipped 1.5 per cent to \$53.75.

While US President Donald Trump previously has been quite reactive to market downturns, Wall Street's strong year-to-date performance means he could be willing to wear some losses.

"While the S&P 500 has declined more than 4 per cent since its peak at the end of April, it's still up 12 per cent this year and close to 20 per cent since the December low," said JPMorgan Asset Management global market strategist Kerry Craig.

"Because of this, politicians may be willing to focus less on the market impact until things get more severe, making it doubtful there will be an early resolution to the current breakdown in negotiations simply based on market moves."



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While some market watchers are optimistic of a resolution in the medium term, others say the conflict could be protracted.

"I think it's going to form into another Cold War," said Newgate Capital Partners chief investment officer Tim Hannon.

"The US is worried about China becoming a much greater threat. It's going to be a real challenge for the next five years and there's no good answers."

THB Asset Management chief executive Christopher Cuesta said he was comfortable in his positions, with the micro-cap investor's portfolio largely immune to the trade war.

"Smaller companies have significantly less direct exposure to these industries, which are in the cross-hairs of trade negotiations [and] tend to have the majority of their revenues derived from domestic or regional sources," he said.

"The domestic nature of both US and international micro-cap companies is giving them greater relative visibility into their revenues and costs during this period of tariff uncertainty."

"New opportunities may also emerge as importers of goods look to domestic producers as a way to hedge potential supply chain disruptions."

While the market is still optimistic concessions between the warring parties can be reached, the latest round of tit-for-tat tariffs represents a significant hurdle.

"It's unlikely a deal will be complete in addressing all facets of the dispute beyond simply tariffs on goods, but may at least see an end to tariff escalation," said JPMorgan's Mr Craig.

"As more tariffs are introduced, the chance that they are all removed if a deal is reached diminishes."

China tariffs 'target' US miner

Commodities

Joe Deaux

The only US rare earths miner is crying foul over China's decision to raise tariffs on American shipments of the raw materials used in electric vehicles.

MP Materials, once the biggest producer of rare earth materials, exports 3000 to 4000 metric tonnes of concentrates to the Asian nation from its Mountain Pass mine in California. The elements MP exports include neodymium and praseodymium, used in the magnets for electric motors.

The higher levies will squeeze the margins of the California producer at a time when American consumers of rare earths are pushing the US to challenge China's dominance in the market for metals that go in electric vehicles.

ASX-listed Lynas Corporation is the world's major supplier of the commodities outside of China, having produced just under 18,000 tonnes in 2017-18.

"It is accurate to call this a targeted, unilateral tariff on the only US rare earths producer," James Litinsky, chief executive officer of JHL Capital Group,

the majority owner of the project, said on Monday. "We are in the process of becoming a self-sufficient, global rare earths producer, we just want a level playing field."

China ships out about 80 per cent of the rare earth materials imported by the US, according to the US Geological Survey. By hitting America's only producer, China has sent a message to the Trump administration about its growing prominence in this supply chain.

Meanwhile, China has grown to be the world's largest producer of electric vehicles as well as the biggest market for them, according to Colin McKerracher, a London-based analyst at BloombergNEF.

Countries, including the US, took China to the World Trade Organisation this decade to force the nation to ease export restrictions. MP Materials ships semi-processed output in China, where the raw material is refined and used in car manufacturing. Meanwhile, Tesla is rushing to complete a multibillion-dollar factory on the outskirts of Shanghai to capitalise on growing demand in the world's largest electric-car market.

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