

MARKET UPDATE

Weekly Update

This Is Serious, Mum



The announcement by the Federal Government that they will be scrapping the previous agreement with the French (that is a decade behind schedule mind you) to the new nuclear-powered (and capable?) submarine fleet seems innocuous enough, but it's all linked.

The US, UK and Australia (now a new acronym of AUKUS) are formalising a strategic security pact for the Indo Pacific region to cooperate in the development of a host of new tech defence systems including AI, hypersonic missiles and cyber weapons.

In the joint press conference, President Joe Biden made the following comments: *“Although Australia, the UK and US partnership, AUKUS - it sounds strange with all of these acronyms but it is a good one, AUKUS, our nations will update and enhance our shared responsibility to take on the threats of the 21st century, just as we did in the 20th century together,”* he said.

“We’re taking another historic step to deepen and formalise cooperation among all three of our nations, because we all recognise the imperative of ensuring peace and stability in the Indo-Pacific over the long-term.

“We need to be able to address both the current strategic environment in the region and how it may evolve. Because the future of each of our nation, and indeed, the world, depends on a free and open Indo-Pacific, enduring and flourishing in the decades ahead.”

We await the steady and escalating stream of disproportionately provocative responses from the Chinese. Look for a further massive reduction in demand for Australian products, justified by lame excuses.

Elsewhere, the Reserve Bank Governor Philip Lowe rejected suggestions that interest rates should rise prior to 2024 to slow the residential property market strength. In a speech on Tuesday this week he suggested ‘changes to tax, social security and planning regulations’ would be more effective.

At present, the market is pricing in a 100-basis point rise by the end of 2024; 25 points by the end of 2022 and 60 points by the end of 2023.

Accordingly the impact of higher rates would have too negative an effect on businesses to justify pushing them higher.

He also expressed concern for so many small to medium businesses during these protracted lockdowns, suggesting they can only survive for so long under these conditions.

The RBA determines official interest rates but the market is a living breathing organism with billions of independently driven cells that no one can control; I wonder who's going to win that argument.

And finally, the market lost a mere 3 points this week, but there was some pretty savage selling in some sectors.

The capitulation in the iron ore price is devastating iron ore related stocks. The iron price fell a further 8.1% last night to \$US107.21, resulting in FMG falling 11.5% today alone, bringing the fall from its peak to 43%. BHP fell 3.7% today, closing out the week at \$39.16. I can't believe I'm saying this already, but BHP is starting to look cheap again.

KKR Credit Income Fund (KKC)

On Wednesday this week KKC announced that due to the discount to NTA at which the share price continues to trade, they will buy back stock on market and create an Australian unlisted fund which will both invest alongside KKC and potentially invest 'in' KKC.

With an NTA of \$2.52 and a monthly distribution of \$0.01 the recent strength in the share price is likely to continue, and hopefully exceed the NTA.

Whitehaven Coal (WHC)

On Thursday WHC announced they had received federal environmental approval for their Vickery extension project following sign off by the state's Independent Planning Commission in August 2020. This saw the share price hit a near term high of \$3.18, although it was smacked along with the rest of the mining sector today.

The project approval doesn't necessarily mean they will be investing into it immediately. Given the company has made it clear they are currently deleveraging, this simply provides them with options.

With the coal price continuing to rise, the share price looks destined to continue higher over the short to medium term, regardless of which strategy they adopt.

IODM Ltd (IOD)

IOD announced a third contract under their new Western Union Business Solutions partnership. The customer is another UK University and is for between \$95k and \$130k annually.

I expect these contracts to flow through over coming months and years, increasing the revenue, profit and value of the business as each one is announced.

Click on [link here for update](#)

Cimic Ltd (CIM)

The CIM share price continues to languish despite the almost daily announcements of contract wins. Credibility is slowly returning to the company despite being beset by multiple complications such as the Greensill supply chain financing collapse (notwithstanding its irrelevance to CIM) concern about a repeat of a Covid impacted year (as mentioned above they continue to win more and more work), management changes and the lack of transparency associated with their equity accounted businesses – Vienta and Thiess; according to press reports, both are about to be listed separately on the ASX.

So because of these issues, a different valuation methodology is justified, namely a sum of the parts valuation. This has seen the Shaw valuation decline to \$26.50.

Link to updated report below

[CIMIC Group Ltd - A Part of the Sum – Exiting Joint Ventures - 14 Sep 2021](#)

Carbonxt (CG1)

Another positive release this week, CG1 updated the market with the news that their Activated Carbon ('AC') Pellet technology has been successful in killing 100% of algae within a remarkable two hours. The other key benefit is the low level of dosages required.

This test is particularly relevant for the algal blooms that have been occurring both across the US and the world due to freshwater eutrophication (the gradual enrichment of freshwater from excessive fertiliser run off). This has been estimated to cost the US economy US\$2.2 billion annually.

It is yet another development in the CG1 arsenal, building on their portfolio of emission and toxin removing products.

I encourage you to [listen to the segment here](#), as featured on CNBC recently.

Ensure the latest episode showing is 9/11/2021

Click play

And go to the 14th minute

Lasts for about 6 minutes

Also [here is a link](#) to this latest announcement.

Enjoy your weekend,

Ben and the team

This report has been prepared by Ben Morrissey

Shaw and Partners, Morrissey Wealth Management

Level 20, 90 Collins Street

Melbourne VIC 3000

Morrissey Wealth Management (Authorised Representative Number 268130) is a Corporate Authorised Representative of Shaw and Partners Limited (AFSL 236048) (ABN 24 003 221 583)

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