ASX climbs, investors dump Brexit stocks

Equities

Vanessa Desloires

Australian shares climbed higher on Monday after investors digested Friday's Brexit vote, with shares enjoying broad-based support, but British and European exposed stocks continued their sell-off.

Bargain hunters returned to the S&P/ASX 200, sending the index 0.5 per cent or 24 points higher to 5137.2. The All Ordinaries climbed 0.5 per cent or 23 points higher to 5216.2.

It followed a positive day around Asia, , with Japan's Nikkei among the strongest bourses, posting a 2.2 per cent gain in late trade after falling almost 8 per cent on Friday.

Contrary to the indiscriminate selling that wiped $50 billion off the benchmark index on Friday after the referendum vote resulted in favour of Britain leaving the European Union, investors homed in on directly affected stocks, Watermark Funds Management analyst Omkar Joshi said.

"It's very stock specific. It's not an across-the-board sell-off in contrast to Friday, it's more measured and controlled," he said.

While most sectors ended higher, the financial sector was where investors most wielded the axe.

Fund manager Henderson Group, the day's worst performing stock, fell 15.9 per cent to $3.75 and BT Investment Management fell 10.2 per cent to $7.82.

"Brexit effectively means not only [these companies] have had a lot of hesitation in flows coming in the last quarter, going forward there's also going to be weaker fund flows," Mr Joshi said.

Clydesdale Bank, National Australia Bank's British spin-off, fell 9.4 per cent to $4.14. QBE shares also took a hit, down 6.8 per cent to $10.23 despite the bank assuring investors it did not "anticipate any material impact on our day-to-day insurance operations".

Mr Joshi said the market was pricing in the immediate impact from the currency markets on fund flows, and said there could be more downside for specific British and European-exposed financial stocks once the next level effects of the Brexit were considered.

The big banks were mixed. ANZ Banking Group lost 0.7 per cent to $23.27, National Australia Bank fell 0.4 per cent to $24.51, while Commonwealth Bank of Australia rose 0.3 per cent to $72.80 and Westpac Banking Corporation ended 0.1 per cent higher at $28.38.

Michael Price, AMP Capital head of fundamental equities, said that a lower global growth and bond yield environment could lead to a resurgence in the yield trade. Australian shares have long been feted for their relatively high yield.

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But it was unclear whether Australia would be regarded by investors as a safe yield-haven or a vulnerable economy, he said. "The Australian market has rallied for three years without earnings growth and could be considered expensive and vulnerable to a loss of global confidence," he said.

The weakest sector was information technology, down 2.1 per cent, heavily weighted by Computershare, which fell 6.6 per cent to $9.24 on its British exposure.

The big miners were the among the strongest performers among the blue chips, albeit recouping just some of the heavy losses suffered on Friday.

BHP Billiton was the strongest stock by weight, rising 3.1 per cent to $18.08, while Rio Tinto rose 2.9 per cent to $44.07. Fortescue Metals Group was the day's best performer, up 8 per cent to $3.53.

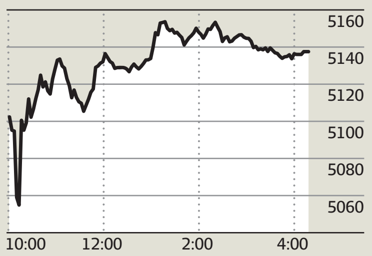
The top performing stocks included "safer" or defensive picks including Telstra, which rose 2.2 per cent to $5.47, Transurban adding 2.7 per cent to $11.91 and CSL, up 1.9 per cent to $108.82. In the retailers, Woolworths rose 0.6 per cent to $20.68 and Wesfarmers eased 0.1 per cent to $39.21.

The telecommunications sector was the best performer of the day, rising 2.2 per cent, followed by utilities, up 2.1 per cent.

Equities

How the market performed on Monday

S&P/ASX 200 Index (points)



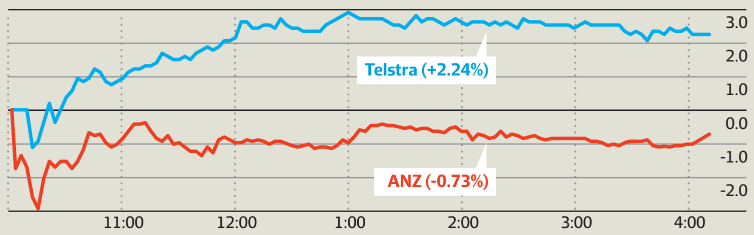
Sector performance (%)

Sector	%
Telecoms	+2.16
Utilities	+2.14
Materials	+2.06
Health care	+0.93
Cons disc	+0.63
Industrials	+0.49
Cons stap	+0.09
Energy	-0.01
Financials	-0.24
IT	-2.18

Best and worst stocks (%)

Best	%	Worst	%
Fortescue Metals	+7.95	Henderson	-15.92
St Barbara	+6.84	BT Investment	-10.22
APN News & Media	+6.13	Clydesdale Bank	-9.41
Orora	+5.43	QBE Insurance	-6.75
OzForex	+5.05	Computershare	-6.57
Stockland	+4.07	Macquarie Group	-5.90

Comparative performance (%)



SOURCE: BLOOMBERG

Plenty of bargains to be had, say strategists

Investment

Jessica Sier

The sell-off was brutal, and while investors survey the damage of the $50 billion wiped off the ASX on Friday, some equity strategists think the worst may have passed and should there be a further market correction, Australian shares could probably withstand the hit.

While Citi is concerned about a possible downgrade in global growth, the bank's Australian economists see the consequences of Brexit as relatively benign.

In fact, Tony Brennan, head of investment strategy at Citi, suggests local stocks may be seen as fairly attractive.

Exports are unlikely to waver more than a few per cent and foreign investment is unlikely to diminish, though the strategists concede it is financial markets that will suffer at the hands of ongoing uncertainty.

"For Australia, the direct economic and earnings consequences of Brexit appear minor and seem to leave Australian markets relatively attractive in a global context," writes Mr Brennan in a note to clients on Monday, adding that company earnings directly sourced from Britain and Europe only account for a minor proportion of Australia's overall market earnings.

And while British banking stocks have been heavily sold off, Australian financials - which make up the overwhelming majority of the local stockmarket - look to be fairly durable thanks to their large domestic earning base.

While Australia's banks have active London branches, Anthony Ip, director at Citi Australia Credit Trading and Analysis, says much of their business is conducted in US dollars.

But investors should brace for possible higher funding costs, given the big four have between 3 and 7 per cent of their wholesale funding in sterling, which may flow through to Australia's big resource names, BHP Billiton and Rio Tinto, though this may be limited.

"Less than 10 per cent of BHP and Rio's funding is sterling-denominated, so we think any funding disruption would be manageable," Mr Ip said.

Some hedge funds have opened the doors of previously closed funds in a bid to take advantage of fraught financial markets following Britain's surprise vote to leave the European Union.

Lanyon Asset Management temporarily re-opened its $165 million Australian Value Fund to new investment on Monday, after closing its doors in 2014.

While fund managers David Prescott and Erik Metanomski expect market volatility to continue, they see the dramatic sell-off as a prime time to pick up some bargains.

BREXIT2016

"In markets where volatility is high and fear pervasive, outstanding investment opportunities can often present," said Mr Prescott, adding the fund will take on another $35 million in capital.

While Brexit is the most imminent risk, Lanyon's managers point to the failure of the current central bank experiment as a catalyst for a much broader re-rating of stocks.

"We are strongly of the view that as there is broader realisation that growth has not only failed to materialise but, in some cases, that global economies have faltered, this central bank experiment will be widely discredited," writes Mr Prescott.

"Despite the aggressive sell-off, we still think equity markets are highly elevated, and we are of the view they can still move materially lower."

We do not think we are at the cusp of an horrendous bear market.
Hasan Tevfik, Credit Suisse

Credit Suisse has cautiously lowered its year-end index target from 6000 to 5500, though chief equity strategist Hasan Tevfik still sees modest upside.

"We do not think we are at the cusp of an horrendous bear market or a systemic crisis," he said on Monday. "Financial institutions are better prepared than they were in 2008, as are monetary authorities."

Mr Tevfik suggests investors wanting to take advantage of the sudden drop in equity prices divide the market into three parts.

Those with an iron stomach will see value in companies with a direct exposure to Brexit and financial market volatility, such as QBE Insurance and BT Investment Management, though Credit Suisse is avoiding most of these.

A second group is those that could be "saved by China". Mr Tevfik is overweight commodity stocks, expecting continued Chinese stimulus to help these businesses generate strong cash flows.

Lastly, Credit Suisse sees cash generative stocks, which are cheap on free-cash-flow and have growth prospects, as the best bet for investors wanting to take advantage of stressed markets.

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Brexit unlikely to trigger July rate cut

and economic bloc. The same pricing pushed the chances of a July cut from 12 per cent to 32 per cent.

Hits to commodity prices as global demand flags and investor flight to quality drives up the US dollar cannot be discounted, says Mr Blythe, and this will also hurt Australian incomes.

Of less importance is the direct blow to Australia's trade with the UK and Britain.

With total two-way trade worth nearly $21 billion, Britain ranks seventh in terms of importance to Australia, but it sits well behind China, Japan and the US, the top three.

Total two-way trade with China, for example, is worth $152.5 billion, according to the Department of Foreign Affairs and Trade.

Any direct commercial hit to Australia's real economy will come through a drop in goods and services exports to Britain because of a weaker pound and recession. A weaker Continental Europe and euro will also weigh on trade.

The most important component of these commercial exchanges is inbound tourism, mainly from Britain but also from across Continental Europe. Other services exports such as tertiary education and financial services will also take a hit, according to research by CBA.

"About 40 per cent of services trade [with Europe, including the UK] is associated with tourism," Mr Blythe said. "So the tourism sector, one of the stronger components of the Australian economy, looks most exposed."

IMF says investors got it all wrong

Financial markets "vastly underestimated" the outcome of Britain's vote to leave the European Union but did not panic, International Monetary Fund Managing Director Christine Lagarde said. She said central bankers "did their job" by ensuring that ample liquidity was available, and policymakers worked to reassure market participants that the "situation was under control. And it was under control".

"There was a violent, brutal, immediate massive move, the pound went down by 10 per cent," she told a forum at the Aspen Ideas Festival on Sunday. "But there was no panic and the central bankers did the job that they were prepared to do just in case, which was to put a lot of liquidity on the markets."

Christine Lagarde: Banks "did their job".

There were no market liquidity problems on Friday like those experienced in 2008 during the worst part of the financial crisis, she said.

Ms Lagarde, however, said that how markets react from here depends on what steps British and European policymakers take to deal with the separation vote and limit uncertainty.

"At this point in time, policymakers both in the UK and in Europe are holding that level of uncertainty in their hands. How they come out in the next few days is going to really drive the direction in which risk will go," she said.

She said policymakers and multilateral institutions needed to work cooperatively to deal with the implications of the Brexit vote. "We have strongly encouraged to actually proceed with this transition in the most efficient, predictable way in order to reduce the level of uncertainty."

REUTERS