

[Weekly Wrap 16 June 2023 – Trading update termoil](#)

Thank you for joining me this Friday the 16th June, I'm Grady Wulff, a market analyst with Bell Direct and this is the weekly market update.

While investors were pleased that the Federal Reserve held rates at 5%-5.25% for the month ahead, investor sentiment was quickly dampened by future rate hike signals and companies issuing profit guidance updates with a downgrading central theme. These were the key themes that moved markets this week.

On Tuesday, the first trading session on the ASX for the shortened trading week, pizza giant Domino's (ASX: DMP) stole the headlines for all the wrong reasons, announcing high input cost pressures have led to the initiation of cost cutting measures including the closure of almost 100 stores worldwide, 20 of which are in Australia. The company experienced unprecedented demand during the pandemic, however, has struggled to adjust to inflationary pressures and slowing demand in the post-pandemic, high interest rate, high inflation era. DMP noted it has taken steps to deliver 'material, near-term, cost savings, improving efficiency and building a stronger foundation for future growth'. The steps taken in the immediate term include closing the company's loss-making Danish division, optimising the corporate store network through other franchise closures, planned commissary closures in South-East Asia and legacy IT assets, and streamlining operations. These immediate plans are set to save Domino's \$80-\$93m in non-recurring costs, and \$53-\$59m in annualised network savings. It's safe to say thick crust pizzas are falling out of favour with consumer preferences as they adjust spending habits and Domino's will need to execute a strategy that mitigates the impact of higher input costs.

On Wednesday, another trading update caused investors to panic-sell out of Australia's largest biotech company, CSL. CSL operates 4 divisions across over 100 countries and employs 30,000 people. Their shares were sold off about 7% on Wednesday after they guided to lower profits due to adverse currency movements. The easiest way to understand how interest rates and inflation are impacting FX for CSL is to think the US interest rate is 5%-5.25% and inflation is at 4%, while in Australia, the interest rate is 3.85% and inflation is 6.8% which have respective impacts on the exchange value in the forex market because the rates directly impact demand for the USD and AUD. Historically, Australia has maintained a higher interest rate differential over the US to attract foreign capital. For CSL, being a global company that earns revenue in several currencies, the company altering its guidance for FX impact on FY23 profit infers CSL is expecting a negative impact to their fiscal 2023 forecast profit of between US\$230 and US\$250m. This is up from US\$175m they provided in their guidance in only February of this year, which is pretty significant, particularly given that forecast was only issued less than four months ago.

Chemicals formulation, manufacturing warehousing and distribution company DGL tanked over 17% on Thursday after also releasing a trading update revising guidance downward for FY23. The company announced previously reported forecast underlying EBITDA for FY23 to be in the range of \$71.5m - \$73.5m, which is now revised to the range of \$64m-\$66m. DGL said 'cost increases inside operations have eroded margins, particularly within the Environmental division and is the main driver of the revised guidance'.

The one common theme we are seeing across companies revising guidance is the key driver of downgrades is rising input costs eating away at margins. This is to be expected in the high inflation environment, which is expected to remain sticky for a little while to come, so we could see some more big and small names on the ASX revise guidance in the near future. From an investor's perspective, understanding why the guidance is being revised is key. External factors like rising input costs is not as concerning as internal operational inefficiencies if those rising costs can be passed on to consumers, something to keep in mind.

Locally from Monday to Thursday the RBA's headache continues as Australia's unemployment rate fell to 3.6% in May, from 3.7% in April, suggesting Australia's economy is still running hot which supports further need for the RBA to continue raising interest rates.

This weighed on the local index, dampening the ASX200's gains over the shortened trading week, but the ASX200 index still managed to post a 0.74% gain for over the 3-trading days, led by a rally for information technology stocks while health care was on the investor chopping block this week.

The winning stocks on the ASX200 from Tuesday to Thursday were AUB Group (ASX:AUB) adding 8.61%, while Fortescue Metals Group (ASX:FMG) rose 8.13% and Insurance Australia Group (ASX:IAG) added 7.05% following the insurance company releasing its investor day update that outlined it is on track to achieve FY23 guidance. And on the losing end Bellevue Gold (ASX:BGL) fell 14.07% this week, Capricorn Metals (ASX:CMM) lost 10.94% and CSL (ASX:CSL) fell 8.45% on the guidance downgrade announcement.

Looking at the broader market, the All Ords rose 0.79% from Tuesday to Thursday led by Mount Gibson Iron jumping 21.25%, while Appen weighed down the index, falling 19.69%.

The most traded stocks by Bell Direct clients from Tuesday to Thursday were Origin Energy (ASX:ORG), Telstra Group (ASX:TLS), TPG Telecom (ASX:TPG), News Corporation (ASX:NWS), Carsales.com (ASX:CAR), Judo Capital (ASX:JDO), and Lovisa Holdings (ASX:LOV).

Clients also bought into CSL (ASX:CSL) and BHP (ASX:BHP) while taking profits from Pilbara Minerals (ASX:PLS).

On the diversification front, the most traded ETFs by Bell Direct clients this week were iShares S&P500 ETF, BetaShares Australian High Interest Cash ETF, and BetaShares Australian Strong Bear Hedge Fund.

Taking a look at the week ahead, the RBA meeting minutes for June will be released on Tuesday which may cause some market movement as investors assess how hawkish or dovish the RBA are toward raising rates in the coming months.

UK inflation rate data for May is out on Wednesday with the forecast of a decline to 8.4% from 8.7% in April.

Japan's inflation rate data is out on Friday with the forecast for a decline to 3.2% from 3.5%.

And that's all we have time for today. Have a wonderful Friday, weekend and as always, happy investing.

- Grady Wulff, Market Analyst