



30 December 2017

# Woodhall's 2017 Year Ahead – how did we go?

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## Measuring success and failure

In the companion documents, 'Woodhall's 2017 – Year Ahead' and 'Woodhall's 2017 – Investment Strategy' on our website's *Market Updates* page, we set out a plan for how we will try to negotiate whatever 2017 throws up at us.

Only a fool would think that all of our forecasts will come good and that our investment strategy will be spot on. But we do expect to get enough right to outperform! And the principles of diversification guarantee that some other, far more risky, strategy can, after the event, be shown to have outperformed ours.

In particular, we should acknowledge that one forecast's failure should be expected to have a knock-on effect. For example, if the oil price happens to fall to, say, \$30 (well below our prediction), it will almost certainly take our dollar and stock market with it. And there would probably be wider repercussions with other calls.

So why bother making predictions? Without them we might as well close our eyes. But, more importantly, we think by simply writing down our thoughts will make us better understand whether or not our forecasts seem logically consistent. And only then we can reasonably ask if the investment strategy (with hard dollars invested) makes sense.

There is an ulterior motive in compiling and updating this document. In plain English, it is to keep us honest with our own wealth management.

When markets do well, and investments do well, it is so easy to take one's eye off the ball. It is inevitable that some investments will turn sour, but some errors are predictable and it is those errors that we wish to eliminate or, at least, reduce!

The 12 Calls in the 'Year Ahead' document each have a chart in the following section which we will update regularly. Two of the calls (China and Europe) are soft calls which are not easy to measure. We are using Retail Sales for China and Unemployment for Europe as simple signals to monitor the strength of those economies. These are imperfect measures. Naturally, we will colour our assessments of those predictions as we go along. But we think we all know what it means if China or Europe turn bad – even if we can't measure failure *ex ante*.

Please note that, in the update charts, the overseas data might be one day behind our domestic data because of the time lag between markets.

We have already started 'Woodhall's 2017 Year Ahead – what did they say?'

Woodhall Investment Research Pty Ltd (ABN 17 141 486 160).

**General Advice Warning:** This note has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Any individual should, before acting on the information in this note, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice. Past returns are no guarantee of future performance.

## The 12 calls for 2017

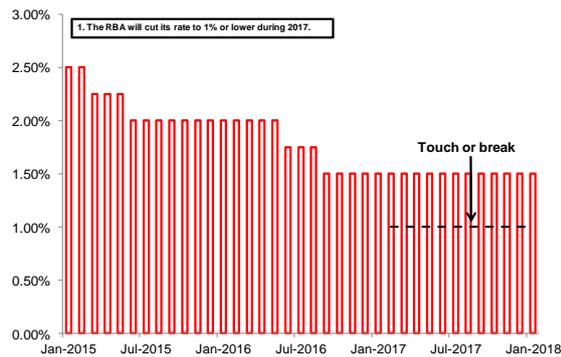
We have inserted one chart for each of the 12 'calls' contained in our 'Year Ahead' publication. We have also appended charts to help monitor those calls we also publish (and continue to publish) in each issue of *\$YDNEY BANKER* [since inception in 2016] when they add to the 12 calls for the year.

The charts can be updated automatically in our software using a 'button press' which we plan to do on a regular basis and upload to our website. However, we will only add or update *commentary*, or text, in the monitoring process when we deem it worthwhile. We will not delete or edit previous commentary [other than for correcting simple typos]. Rather, we will add new comments when appropriate. Each comment will be dated.

All data in these charts are sourced from Thomson-Reuters Datastream, except for Australian GDP and Labour market data, which are sourced from the ABS. The mnemonic in the 'Source' is the code used to download the data from Datastream or the ABS website.

Most charts have a red or black diamond inserted at the forecast origins to assist in a visual evaluation of our forecasts.

**Call 1: RBA cash rate**

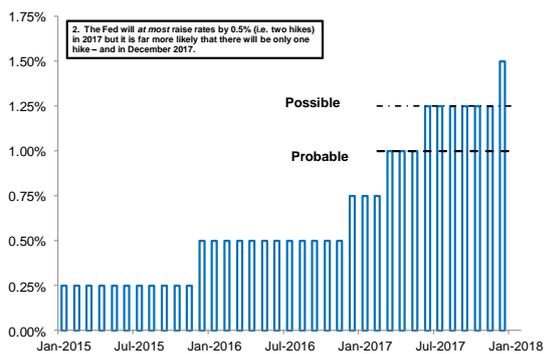


Source: RBACASH

**Commentary:**

**30<sup>th</sup> December** – We got this one wrong! The jobs data in 2017 looked good on the back of immigration. We thought the RBA would cut (and we still think they should have) but jobs growth fooled the masses. The unemployment rate is still stubbornly high at 5.4% and retail sales are largely limp. We still think the next move will be down but we have to take this one on the chin.

**Call 2: Fed funds target rate**



Source: USPRATE

**Commentary:**

**4<sup>th</sup> January** – note that the Fed announces a 25 bps range while this target rate in Datastream is the upper rate in that range.

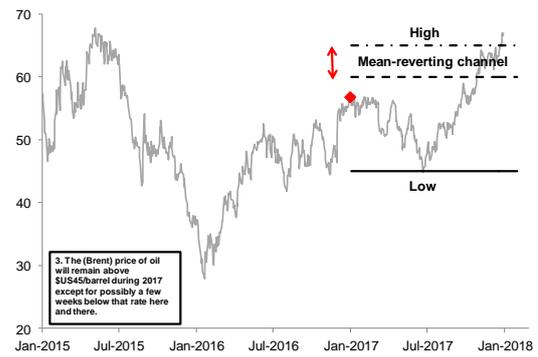
**6<sup>th</sup> January** – the recently released Fed minutes suggest that the predicted number of hikes went from two to three in December because of the mooted Trump tax cuts and fiscal investments. We think Trump will take longer to deliver – but that he will deliver in 2018!

**17<sup>th</sup> March** – The Fed hiked in March but signalled they are waiting for Trump. We think we will get another (making two) but not three this year.

**11<sup>th</sup> May** – A June hike is almost a dead cert. We still think that may be the last.

**30<sup>th</sup> December** – We also got this one wrong. They squeezed in a third hike in December despite inflation being well below target. They plan on three more next year. We think two at most (like the market).

**Call 3: Brent oil price (\$US / barrel)**



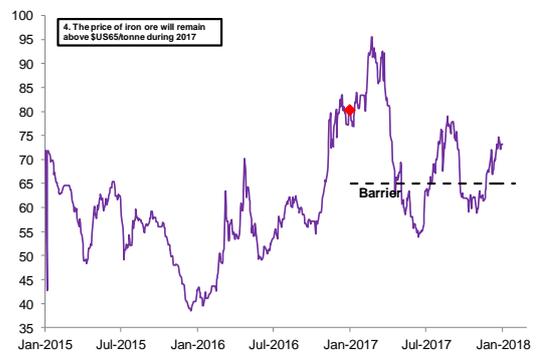
Source: LLCS00 (corrected from OILBRNP to source ICE futures and not spot prices to mimic Bloomberg and others standard – January 8<sup>th</sup> 2017 – and we changed the line colour to grey from black to better observe if/when the line goes through channel in bold black type!)

**Commentary:**

**6<sup>th</sup> January** – The early moves after the Jan 1 OPEC agreement seem to have already lifted prices.

**30<sup>th</sup> December** – This looks like a win for us! Brent got down to our low and bounced off it back to the channel. Does it get better?

**Call 4: Iron ore price (\$US / tonne)**



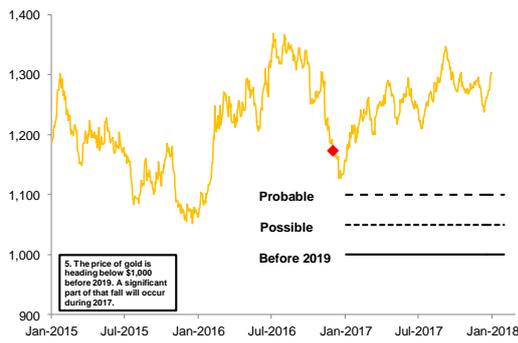
Source: SHCNIOI

**Commentary:**

**January 14<sup>th</sup>** – After the +5.6% overnight price increase, CNBC reported that Bain predicted \$50 by year end and Bloomberg's survey of 13 panellists predicted a \$55 average over Q4.

**30<sup>th</sup> December** – Almost a big win? It didn't quite bounce off \$65 / tonne (but almost). Recent strength makes some forecasters look perennial bears.

**Call 5: Gold price (\$US / troy ounce)**



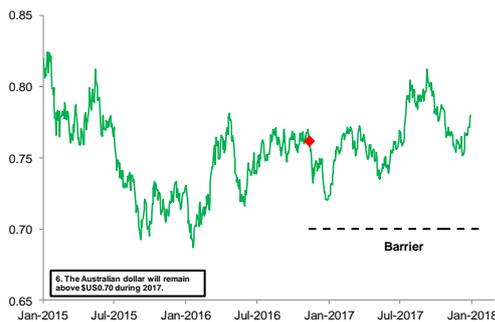
Source: GOLDBLN

**Commentary:**

**8<sup>th</sup> January** – we agree that gold is meant to represent a hedge against inflation – but also other geopolitical risks. We think the latter completely dominates the former which is why we think the price of gold will fall sharply.

**30<sup>th</sup> December** – we definitely got this one wrong but we think that gold will plummet when Trump's infrastructure plan takes off.

**Call 6: Australian dollar (\$US)**

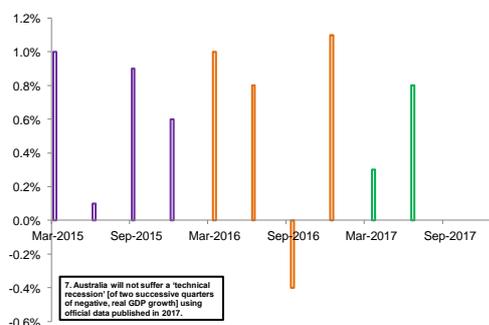


Source: AUUSDSP

**Commentary:**

**30<sup>th</sup> December** – Our dollar fell in the beginning but we didn't predict the recent strength. We see our dollar closer to 70c in 2018 than it is now.

**Call 7: Australian real GDP growth**



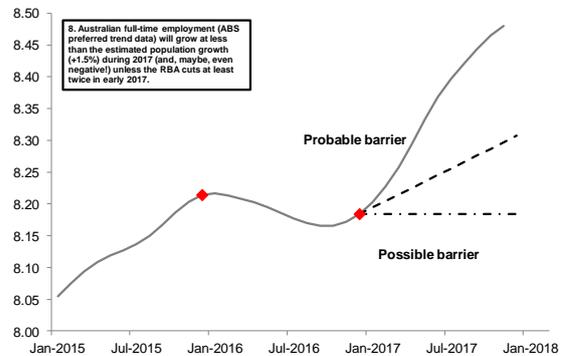
Source: ABS 5206.0 (A2304370T)

**Commentary:**

**January 4<sup>th</sup>** – we display the latest (revised) data that the ABS reports.

**30<sup>th</sup> December** – we were far from alone in this call. Of course we were right. And there will be no recession in 2018 either.

**Call 8: Australian full-time employment, millions**



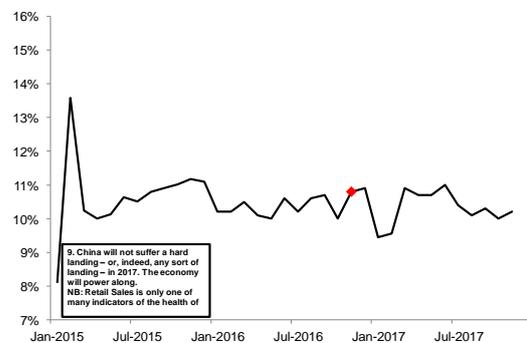
Source: ABS 6202.0 (A84423125J) trend data

**Commentary:**

**May 11<sup>th</sup>** – We think the April release was an aberration.

**30<sup>th</sup> December** – we were wrong on this one. But despite strong growth in employment, the unemployment rate didn't fall by much. Jobs seemingly provided employment for immigrants.

**Call 9: China retail sales growth**

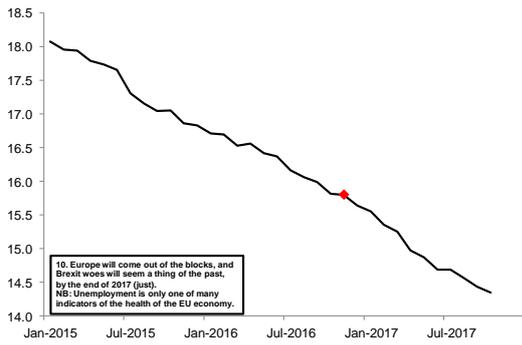


Source: CHRETTO%A

**Commentary:**

**30<sup>th</sup> December** – every year there is an army of people prepared to call a big slowdown in China. Again they were wrong and, therefore, we'll take this one.

**Call 10: EU unemployment (millions)**

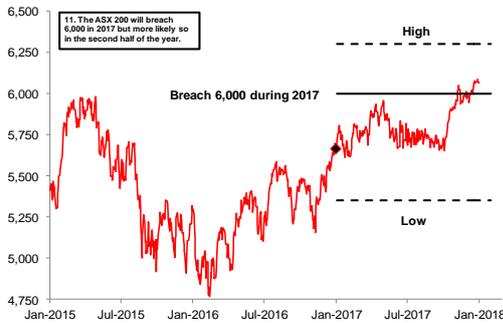


Source: EMUNPTOTO

**Commentary:**

**30<sup>th</sup> December** – we'll claim this one too. Europe is indeed looking strong.

**Call 11: ASX 200 price index**

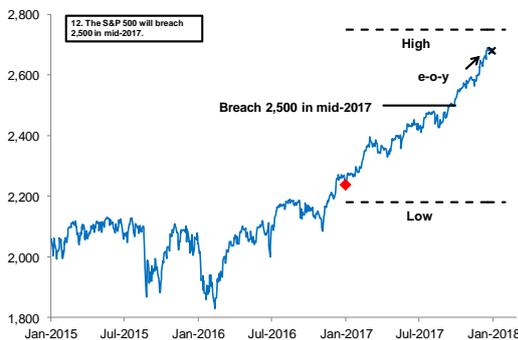


Source: ASX200I

**Commentary:**

**30<sup>th</sup> December** – we certainly will claim this one as a win.

**Call 12: S&P 500 price index**



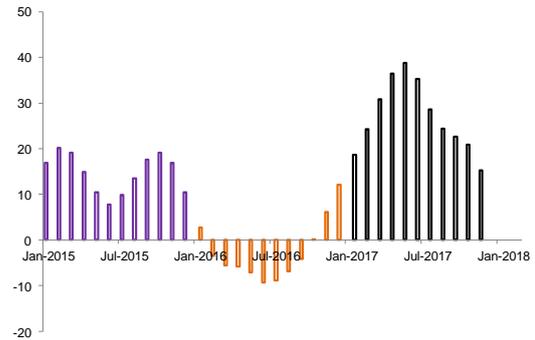
Source: S&PCOMP

**Commentary:**

**30<sup>th</sup> December** – we certainly will claim this one as a win. Given our forecast was so far above the published forecasts, this is the sweetest call of all!

**Extra calls from \$YDNEY BANKER**

**Call 13: Change in full-time employment '000**



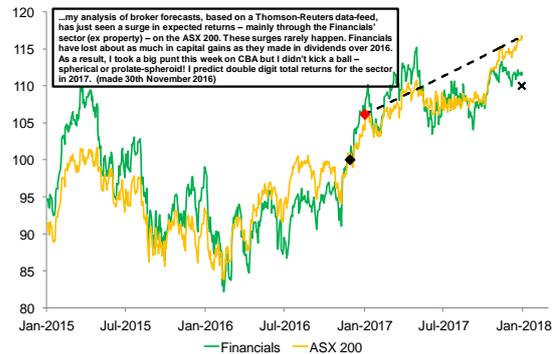
Source: ABS 6202.0 (A84423125J) trend data

**Commentary:**

**20<sup>th</sup> January** – The year of 2016 has now concluded and f/t employment was down -35,000 on the year. These numbers will be revised in the next few months but it is highly unlikely that f/t employment in 2016 can turn out positive.

**We take this call as a win!**

**Call 14: ASX 200 Financials accumulation index**



Source: ASG2XP1

**Commentary:**

**January 4<sup>th</sup>** – the forecast was originally published on the 29<sup>th</sup> November 2016 but related to the 2017 year. The graphics allow for a 10% gain from both possible start points. 'X' marks the spot from 29<sup>th</sup> November, 2016.

**January 10<sup>th</sup>** – Yesterday all four big banks reached 12-month highs. The green line in the chart shows that it has already produced double digit returns from the black diamond signifying when the call was made. It is up +3.8% y-t-d (in just 5 trading days!).

**May 11<sup>th</sup>** – Our forecast was going really well until the bank tax was announced in the Federal Budget. But we still think we will make it.

**30<sup>th</sup> December** – we got this one wrong. The bank tax and inquiries stymied us. But the growth was so strong in late 2016 that we would have been right if we started the race in November and not eoy 2016. But that would be cheating!