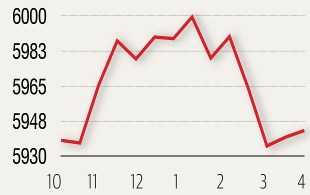
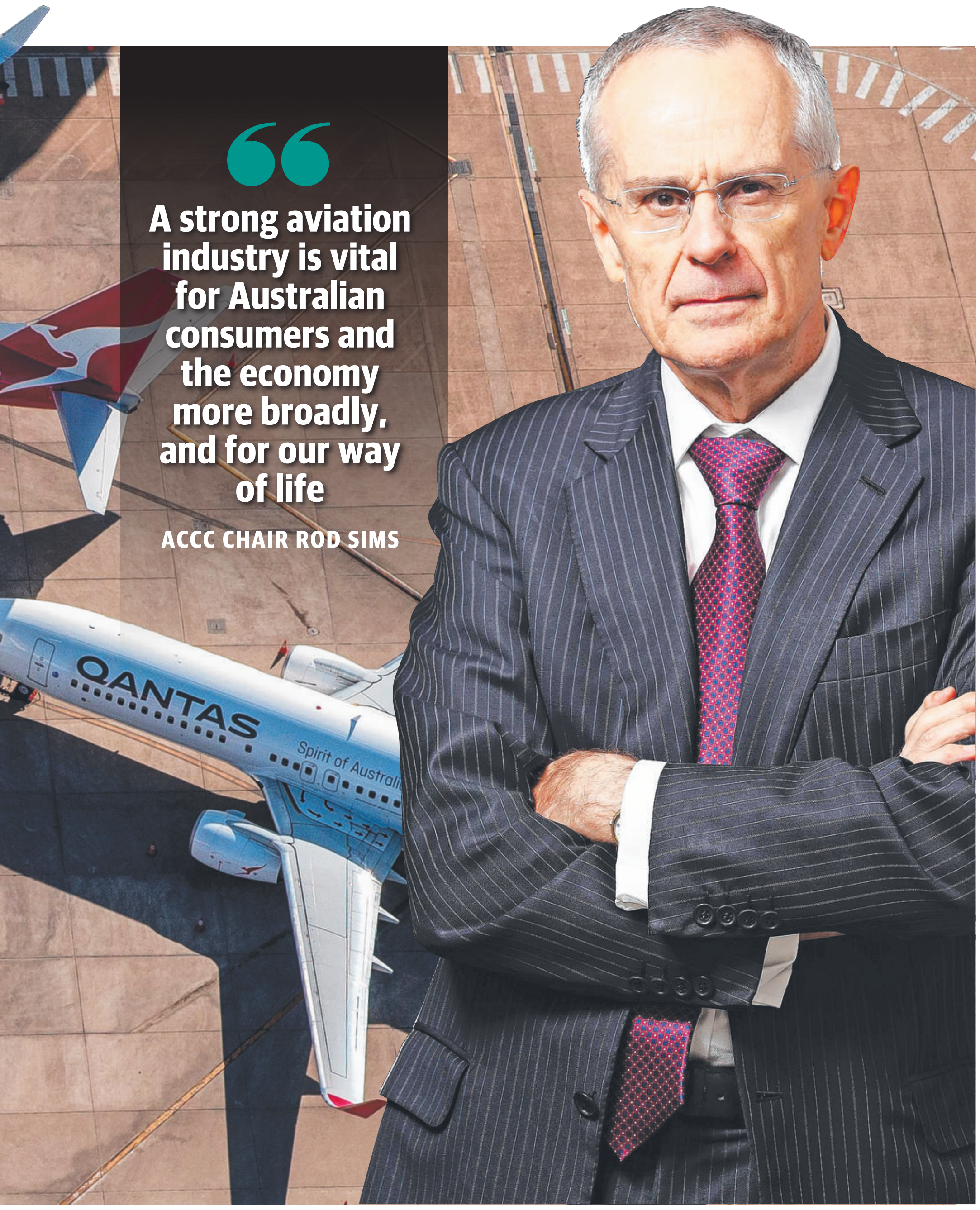
| ASX 200 | ALL ORDINARIES | BEST ASX 50 | WORST ASX 50 | $A | OIL BRENT | IRON ORE |
|---|---|---|---|---|---|---|
| | | TRANSURBAN GRP | SCENTRE GROUP | US CENTS | $US PER BARREL | $US PER TONNE |
| 5942.60 | 6066.90 | $15.16 | $2.21 | 68.69¢ | $41.43 | $103.05 |
| +6.10 +0.10% | +15.00 +0.24% | +.46 3.13% | -.11 -4.74% | -0.05 -0.07% | +0.89 +2.19% | -0.13 -0.12% |

The market has finished flat, fading after being up as much as 1.2 per cent after data showed retail sales rebounded in May.




"A strong aviation industry is vital for Australian consumers and the economy more broadly, and for our way of life"

ACCC CHAIR ROD SIMS

# to probe the airlines

Mr Frydenberg indicated the move was a further example of the government's support for the industry as it navigated the coronavirus pandemic.

"This includes continuing to work constructively with the administrator in relation to the Virgin administration and supporting a market-based solution," he said.

Separately, the ACCC revealed it had pressured Qantas Airways to do the right thing by customers whose flights had been cancelled or suspended due to COVID-19 restrictions.

The watchdog said it had received "hundreds of complaints from passengers" who only received travel credits in return for cancelled or suspended flights rather than the refunds they were entitled to.

"We want to ensure that customers are aware that when Qantas suspends or cancels flights due to travel restrictions and fails to provide them with an acceptable alternative flight, they are entitled to a refund," Mr Sims said.

In recent days, following pressure from the ACCC, Qantas sent an email to customers to "remind" them of their right to refunds. But even the most recent communication was not particularly clear, the ACCC said. "From our perspective, from the outset, Qantas did not communicate clearly with customers about their rights and, in a large number of cases, simply omitted that they were entitled to a refund," Mr Sims said.

"We do appreciate that the airline industry globally is significantly impacted by the global COVID-19 pandemic but I think that customers can and should expect better from Qantas, particularly when many of those customers may be out of work or experiencing financial hardship."

THE AUSTRALIAN

# Stocking up is not a sign of optimism

THE SHORT CUT

ROGER MONTGOMERY

FOLLOWING the COVID-19 sell-off, we reduced our cash and added to our holdings in Woolworths, Macquarie Financial Group, Westpac, the Commonwealth Bank and Scentre Group.

Our cash has fallen from more than 30 per cent to below 20 per cent, the lowest for some time, and we are building additional positions in undisclosed stocks.

It might be reasonable to interpret our moves as implying a bullish view of markets. That, however, is not the case.

Our most recent analysis suggests market prices are broadly at their most extreme valuations since the fund's inception.

And keep in mind that our analysis excludes further potential earnings downgrades amid an information vacuum inspired by hundreds of companies pulling their earning guidance, as well as stale sell-side forecasts for earnings and balance sheets.

Additionally, it is fair to say neither in my lifetime, nor in my reading of history have I ever seen a man-inspired economic calamity such as the world is now experiencing.

I am not talking about the virus itself but the hard-stopping of the global economy at a time when elevated debt levels suggest the world can least afford such a hit to cash flows.

In recent years, global debt has soared to a level unprecedented in history thanks to consumers, corporate share buybacks and governments.

While markets laud, and rally on the back of central bank countermeasures to buy individual corporate bonds, it should be noted that such action only has the effect of maintaining low rates for companies that would otherwise already be bankrupt.

It does not generate revenue or customers for those companies being "supported".

All of this bond buying support must be funded by the printing of money, something markets are currently cheering.

But the US printing of money without limit, under the auspices of Modern Monetary Theory, is not helping to finance military or economic domination, which in the current geopolitical environment is probably wise.

Instead, the money being printed is merely being used to buy the bonds of, and support low interest rates for, rubbish Triple C-rated junk companies. It suggests something undesirable will probably emerge.

Whether the current economic disaster can be repaired through the printing of money remains a multitrillion-dollar question.

The same goes for whether it leads to inflation, or possibly hyperinflation after excess productive capacity is soaked up.

Returning to the more immediate question of domestic equity valuations, even by extending valuation metrics to include earnings two years out, valuations aren't too compelling.

And we would argue the level of uncertainty and volatility in the economy means forecasting earnings, even for the next quarter, is a complete guess.

With that in mind, it is reasonable to conclude that much of the support in the stock market is inspired by gambling rather than solid fundamental analysis.

One only needs to look at the 1500 per cent rise in the price of Hertz after it declared bankruptcy on May 22, and the support for its billion-US-dollar capital raising after telling investors the shares could ultimately be worthless, that a material level of speculation is evident.

A return to "normal" levels of economic activity could take much longer than the "return to normal" implied by current aggregate share prices.

A halting recovery, rather than the quick and easy one implied by market prices, puts shares at a significant risk of disappointment. This risk must be assessed for any position investors now add to their portfolios.

Rather than chasing the speculative growth stories that are rallying the most, it may be prudent to reduce the volatility of one's portfolio and concentrate investments on liquid, high-quality businesses.

Zero interest rates, treasury printing money and central bank bond buying is supporting the speculative activity evident in markets but longer-term investors know such dislocations between prices and real business activity do not last.

If something can't last forever, it must stop. Stocks with the highest prices, and therefore the highest bars set for earnings, will be those that fall the hardest.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT MONTGOMERY INVESTMENT MANAGEMENT

# Loan deferrals 'overstated'

JOHN DURIE
BANKING

FIGURES released by the banking industry on loan repayment deferrals during the coronavirus pandemic potentially overstate the situation, an analysis indicates.

Credit Suisse banking analyst Jarrod Martin said statistics published by the Australian Banking Association did not account for customers who had restarted repayments.

"We encourage the ABA and banks to publish a data series that nets off those that have started to repay," Mr Martin said.

Such statistics "may be more difficult to collate but from an investment community perspective this is a more valuable data point", he said.

The ABA yesterday said repayments had been deferred on $236.7 billion worth of loans — up slightly from $234.2 billion a week earlier.

Mr Martin said the figures didn't square with comments from bankers such as National Australia Bank chief Ross McEwan, who this month said 10 to 15 per cent of the bank's customers had resumed making repayments.

This should mean the total loan deferral figures should be falling not increasing.

## MARKET WRAP

THE Australian share market eked out a minor gain yesterday as it capped a rocky week where investors pivoted from fears of a second wave of coronavirus to joy over a new round of US stimulus.

Despite gaining as much a 1.2 per cent during the day, the benchmark ASX 200 index finished just 6 points or 0.1 per cent, higher at 5942.6 while the broader All Ordinaries put on 9.7 points, or 0.2 per cent, to close at 6061.6 points.

For the week, the ASX 200 index gained 1.6 per cent.

Tech and consumer discretionary stocks were the top performers, but the major banks were the greatest drag.

ANZ currency research head Daniel Been described recent market moves as a "tug of war" between stimulus measures and contagion concerns.

Furniture retailer **Nick Scali** surged 19.6 per cent to $6.88 after saying it predicted a second-half profit of 15-20 per cent. Homewares retailer **Adairs** rose 10.5 per cent to $2.31 after it said sales for the year to date were up 27 per cent. Logistics software provider **WiseTech** put on 7.8 per cent to $23.40, buy now, pay later heavyweight **Afterpay** 1.5 per cent to $58.69, **Xero** 0.5 per cent to $89.29 and **Appen** 4.1 per cent to $33.83.

The **Commonwealth Bank** dropped 0.5 per cent to $68.68, **National Australia Bank** 0.6 per cent to $18.67 and **ANZ** 1.7 per cent to $18.75. **Westpac** bucked the trend, gaining 0.4 per cent to $18.17.