Amicus

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Thank You for Your Ongoing Support

Since Amicus started the business in 2008, Amicus has served over 140 different clients across a wide range of industries from local government, fund managers, charities, corporates, churches, accountants, administrators, universities, schools and high net worth individuals.

The services we have provided have also been wide ranging too and have included investment advice, valuations, advice on mixed legal and financial issues, expert evidence, investment policy and strategy formulation, reporting and auditing. In 2018, we plan to continue with all the above initiatives, plus expand into other related areas of advice and investment service while remaining focussed on the needs of conservative fixed-interest institutional clients.

We'd like to thank all those Clients who have supported us either on a retained or project basis this year

We'd like to thank all those Clients who have supported us either on a retained or project basis this year and wish you a Merry Christmas and a happy and prosperous 2018.

Latest Results from the Major Banks

Growth in cash profit after tax was achieved by all the banks

The Major Australian Banks recently announced their financial results for the full year to 30 September; with the exception of CBA who announced their latest financial results in August for its financial year ending 30 June 2017. The four major banks' overall combined cash profit after tax for the year increased 6.4% year over year to $31.5 billion and was primarily driven by lending growth and lower bad and doubtful debts expense. Growth in cash profit after tax was achieved by all of the banks, with ANZ reporting a 17.8% increase from the last financial year, CBA a 4.6% increase, NAB 2.5% and Westpac 3.1%.

Overall the major banks reported improving capital positions and robust asset quality metrics. In our view, arrears for the banks' home loan portfolios will likely increase due to the eventual rise in interest rates. Due to the financially stretched nature of Australian households (Australian household's debt represent 190% of household's disposable income), Australian households in the aggregate have very little spare capacity to absorb interest rate increases and defaults on mortgage debt would likely result in higher loan losses at the banks in aggregate.

Current potential bad debts are masked by a rising housing market so home owners or investors who over-borrow, lose their jobs or who cannot afford higher interest rates when initial interest only periods expire, simply sell their houses at a profit due to the rising housing market.

The fact they were financially stressed forced sellers is completely invisible and largely undiscoverable as they don't advertise this fact (very few people market themselves as a distressed seller when trying to obtain the best price for their house in the open market). Borrowers in this position only become apparent when the housing market turns and they are forced to sell at a loss, a situation that has not occurred now for many years.

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What to Expect in 2018

In early December, the RBA elected to keep the cash rate on hold at 1.5% as widely expected. According to the accompanying statement, the RBA remains concerned with the weak wages growth and soft consumer spending despite the buoyant jobs market. The RBA Governor, Dr. Lowe, stated the Australian economy was expected to grow by an average of 3% over the next few years and business conditions were positive.

Recent economic data and RBA's revision of growth and particularly inflation forecasts indicate that interest rates will be on hold for at least the next six months. The key economic variable that will need to rise prior to any adjustment upward of the cash rate is the official inflation figures. There seems to be minimal pressures on the inflation figures currently with low wages growth, subdued consumer spending and moderating house prices.

The RBA is unlikely to cut interest rates given all the statements it has made and its concerns about doing anything that might encourage households to take on more debt

It is unlikely the RBA will raise interest rates pre-emptively to control the housing market because of the potential side-effects on the broader economy. The RBA has consistently advocated for macro-prudential regulation in this area as an alternative to curtail house price growth and risky lending. Even if the fourth quarter inflation figures (which will be released in February 2018) are high, the RBA will most likely wait for confirmation from the first quarter figures and delay any interest rate moves until May 2018.

Conversely, the RBA is unlikely to cut interest rates given all the statements it has made and its concern about doing anything that might encourage households to take on more debt, something it has made abundantly clear is its major concern.

Amicus expects a slowdown in the economy in 2018 as household debt as a percentage of income is currently still rising. This is unsustainable and so at some point must stop. When it does, it will necessarily mean a reduction in consumer spending as consumers will by definition be then spending no more than they earn and this means they will be spending less than they are currently.

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Who is Amicus?

Amicus is an investment advisory firm, licensed by ASIC to provided financial services to wholesale investors only (Australian Financial Services License No. 384126). We deliver impartial research, advice, valuations, reporting and other services to wholesale clients. We also provide assistance with the formulation of individual client investment policies and strategies, funding requirements, debt advisory assistance with transactions and help with mixed financial and legal issues.

We are 100% independent and not aligned to, nor owned by, any product provider or external organisation.

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