

Wednesday, 10<sup>th</sup> May 2017

## Morning Round Up

### Germany – Europe's Engine

In advance of a September election, the German economy continues to be the powerhouse of Europe and shows no sign of slowing down. Latest trade data posted its best ever month for imports and exports. The German economy exported €118.2bn in March with imports hitting €92.9bn, both the highest on record. Year on year exports were up 10.8% in March while imports climbed 14.7%. Germany's overall trade surplus is now at €25.8bn, just slightly down on a record hit in March of last year. It is not all good news however. Industrial production fell for the first time in four months in March. This is expected to be transitory however.

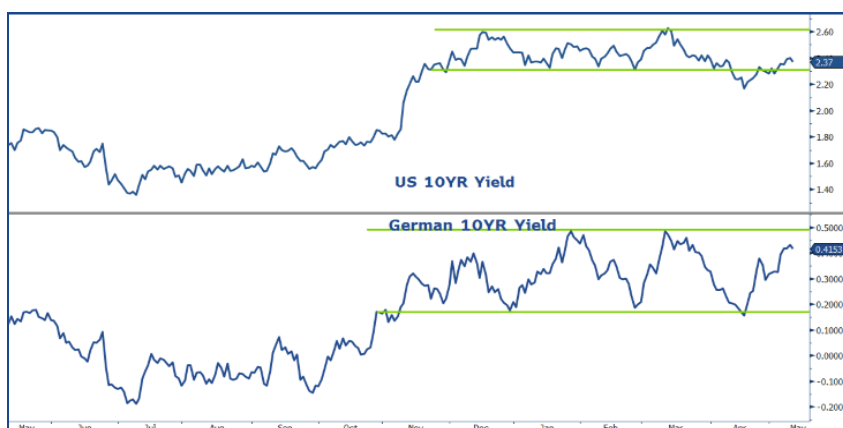
### Trump – Sacks FBI Director

News broke overnight that Mr Trump had fired the Director of the FBI, James Comey, supposedly for incompetence with regards to his handling of the Clinton email saga. Mr Comey had announced in July that he would not recommend indicting Ms Clinton as a result of the probe. That reopening of that probe is widely credited for handing the momentum to Mr Trump in the run-up to last year's election. The sacking also comes at a time when the FBI is pursuing a major investigation into links between Russian officials and some of Mr Trump's associates. Democrats immediately called the actions shocking and deeply troubling. Senior Republicans also expressed their reservations at the decision and were "troubled by the timing and the reasoning" of the termination. This is another decision which will eat away at Mr Trump's credibility in Washington, further emboldening opposition within his own party and eroding his chances of actually being able to implement his reform agenda.

### US 10 Year Yield – On The Move

The yield on the US 10 Year Treasury rose above its 50 day moving average for the first time since March to 2.4%. This move comes amid increased expectations of a Federal Reserve rate hike in June with the market implied probability of an increase hitting 100% last week. The US ten year has now moved into a range it had traded in from November of last year to mid-March of this year. The top of this range is at the 2.6% level. It is also expected that FOMC will announce some details with regards to tapering their balance sheet over the next few months. This will also place upward pressure on yields. The euro sold off vs the dollar moving away from the \$1.10 level down to \$1.0885.

### US 10 year - price chart.



### Key Upcoming Events

08/06/17 - UK General Election  
13/06/17 - Fed Meeting

### Market View

Asian markets finished up overnight as the election of a new liberal South Korean President assuaged investors' concerns regarding a confrontation with North Korea. Moon Jae-in has stated that he will seek discussions with the North and not inflame the situation. Elsewhere, the US dollar showed some strength after a prolonged bout of weakness as the possibility of a Fed hike in June became locked in. European equities had their first gains since the Macron election after some brief profit taking from investors. Market focus today will be on US Mortgage applications and a Mario Draghi speech at 12pm today.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20976	-36.50	-0.17%	6.14%
S&P	2397	-2.46	-0.10%	7.06%
Nasdaq	6121	17.93	0.29%	13.70%

Nikkei	19,900	57.09	0.29%	4.11%
Hang Seng	25,092	202.74	0.81%	14.05%
Brent Oil	48.91	0.18	0.37%	-13.92%
WTI Oil	46.22	0.34	0.74%	-13.96%
Gold	1222	0.64	0.05%	6.48%

€/\$	1.0894	0.0020	0.18%	3.58%
€/£	0.8398	-0.0009	-0.10%	-1.61%
£/\$	1.2972	0.0038	0.29%	5.12%

	Yield	Change
German 10 Year	0.43%	0.003%
UK 10 Year	1.19%	-0.009%
US 10 Year	2.39%	-0.009%

Irish 10 Year	0.88%	-0.010%
Spain 10 Year	1.63%	0.004%
Italy 10 Year	2.28%	-0.004%

**PTSB (Under Review) - Strong results buoyed by strong lending figures**

Previous Close: €2.60

**News**

Permanent TSB released a trading update this morning that showed progress has been made on several fronts. Overall NIM rose 0.21% to 1.8%. This was driven by deleveraging, reductions in pricing liability and redemption of NAMA bonds. Total new lending volumes 64% year on year compared to Q1/16. New mortgage lending grew by 63% in the quarter while the overall market grew by 39%. This is strong result and overall market share increased from 9.3% to 10.4%. 10,000 new current accounts were also added during Q1. Operating costs were in line with expectations and regulatory charges are expected to be marginally lower than previously guided. Lastly common equity tier 1 ratio increased to 15.1% from 14.9% at the end of the year, which is a healthy capitalisation ratio.

**Comment**

These were a very solid set of results showcasing the bank's growth in the Irish mortgage market along with management's focus on cost control. Previous full year results had shown management's ability to manage costs with operating expenses lower in H2/16 relative to H1/16. We would expect this to continue. The bank is not yet in a position to update on its NPL reduction strategy but expects to do so in Q3. When it does we would expect the asset quality of the bank to strengthen. Underlying capital generation remains strong as the CET1 ratio increase shows and NIM increases bode well for the future. The bank has been buoyed by the very healthy state of the Irish economy, particularly on the housing demand side. The ability to increase market share in an increasingly competitive mortgage market is a good indicator for future performance. Overall this was a strong set of results and we maintain our Outperform.

[Will Heffernan | Investment Analyst](#)**Paddy Power Betfair (Market Perform) - Acquisition in high growth fantasy sports market** Previous Close:€99.65**News**

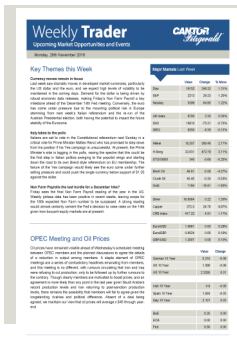
Paddy Power Betfair has announced its entry into the daily fantasy sports market in the US through the acquisition of an early stage operator, DRAFT. DRAFT is mobile-led platform that allows players to assemble imaginary or virtual teams of real players in professional sports. The teams compete based on the actual statistical performance of those players in real-life games. Each player competes against opponents with each team owner able to place real money bets with other people who have also assembled fantasy teams. The betting can work in numerous ways and scenarios. Players can also enter a league where money is pooled and the overall winner of the league wins the prize money. Paddy Power Betfair have paid an initial \$19mn with a further consideration of \$29mn payable over the next four years depending on the business performance. Management has guided for "substantial marketing investment" in the next few years in order to grow the business and expect an EBITDA loss of \$20mn forecast in 2017.

**Comment**

This is an interesting development from Paddy Power Betfair as it takes it into a market that has seen rapid growth over the last 3 years or so. The number of fantasy sports players in the US and Canada has grown from 18m in 2007 to 56.8mn in 2015. 30% of US teens and 18% of Canadian teens are estimated to have an fantasy sports account. Interestingly, 78% of users are college degree holders with an average income is \$93,000. This is a market that caters to wealthier than average individuals and is primed to grow substantially over the next few years. However it is a very competitive market with the two major players dominating 90% of the market. These two companies' revenues have exploded over recent times; from \$3mn in 2013 to \$105mn in 2015 and \$57mn in 2014 to \$170mn in 2015. Much like the Paddy Power Betfair model, it is an industry that requires major market spending and significant online investment. It remains to be seen if the company that Paddy Power acquired can make significant inroads in this market. With that being said, we would welcome exposure to this market due to high growth nature. However, we maintain our Market Perform rating on Paddy Power Betfair due to the previously stipulated reasons of regulatory headwinds and increasing online competition from peers.

[Will Heffernan | Investment Analyst](#)

# Cantor Publications & Resources



## Weekly Trader

On Mondays, we release our Weekly note in which we provide a view on Equity markets for the coming days, and highlight a number of Equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meet on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments

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## Monthly Investment Journal

Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our core portfolio, including the Green Effects fund, most recent Private Equity deals and structured product investment opportunities.

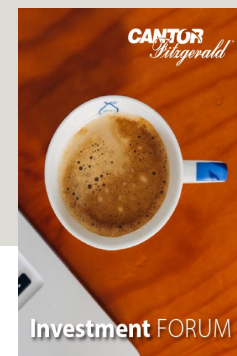
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## Investment Forum

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## Regulatory Information

### Issuer Descriptions: (Source: Bloomberg)

**PTSB:** Permanent TSB Group Holdings Plc provides personal financial services in the Irish market with strong market positions in life and pensions, fund management and retail banking

**Paddy Power Betfair:** Paddy Power Betfair Public Limited Company is a betting and gaming company. The Company provides online betting and gaming products

### Historical Recommendation

**PTSB:** We have changed our outlook on PTSB to "Outperform" from "Under Review" as of 08/03/2017

**Paddy Power Betfair:** We have changed our outlook on Paddy Power Betfair to "Market Perform" from "Outperform" as of 31/01/2017

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