Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Thursday, 11th May 2017

Morning Round Up

Fed Chatter – Hawkish Rosengren

Federal Reserve Bank of Boston President Eric Rosengren used a speech yesterday to urge his colleagues to raise interest rates three more times this year and also to start considering reducing the Fed's balance sheet after the next hike. He advised that these measures were necessary in order to avoid creating an over-heating economy. Mr Rosengren said he expects above-potential growth over the next year and "this would represent an unsustainable, overshooting pace and provides an important rationale for continuing the process of normalization". Markets have already priced in a hike in the June meeting with 100% of analysts expecting the Fed to move. Focus will now move onto the September meeting.

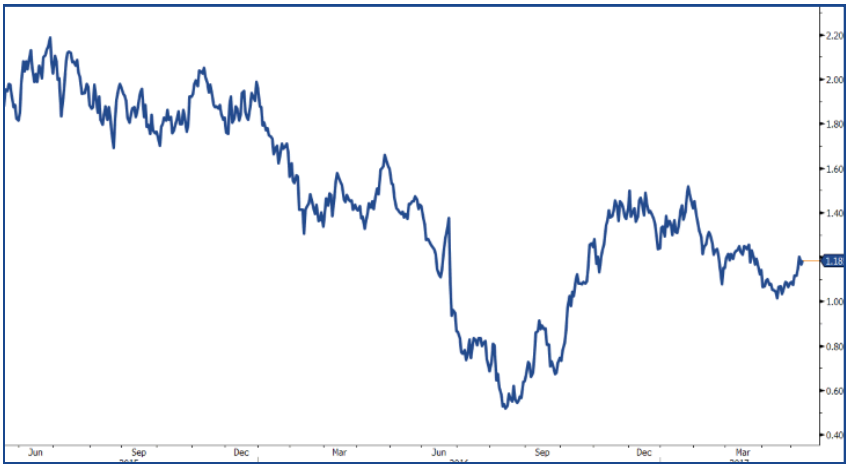
China – Jim O' Neill's Take

Jim O'Neill, the man most famous for coining the "BRICs" term while head of Goldman Sachs Asset Management, has downplayed talk of a financial crisis in China. Recent moves by the central government and PBOC have seen tightening in the economy resulting in rates spiking and lending dramatically reducing. Mr O'Neill does not believe it will manifest as a long-term problem stating "this continues to be completely overblown. China has demonstrated multiple times that it is very good at dealing with cyclical challenges". The likely scenario is that if the stated 6.5% GDP growth target comes under threat, the PBOC will open up the liquidity taps once again.

BOE Decision - Preview

Ever since the election announcement the usually talkative Bank of England Governor, Mark Carney, has been conspicuous by his silence. He, along with other BOE officials, has refrained from public speaking aside from policy specific communications and will probably continue to do so until after the election in mid-June. This means it has been difficult to gauge a likely course of action in the run-up to today's policy decision. Consensus expectations are for the Bank to do nothing due to Brexit uncertainty and the recent sterling appreciation which may be transient. Signs of strain on UK consumers are starting to show with inflation accelerating and growth slowing. Officials will be hesitant to act with an election just around the corner.

UK 10 year - price chart



Key Upcoming Events

08/06/17 - UK General Election

13/06/17 - Fed Meeting

Market View

Asian markets were up overnight as investors took heart from a second day of China stability. Oil pushed above $50 dollars a barrel as weekly US crude stockpiles numbers showed a bigger drop than expected in inventories. The US finished up as a stronger US dollar and a very strong earnings season continued. Market focus today will on the BOE interest rate decision and US PPI data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20943	-32.67	-0.16%	5.97%
S&P	2400	2.71	0.11%	7.18%
Nasdaq	6129	8.56	0.14%	13.86%
Nikkei	19,962	61.46	0.31%	4.43%
Hang Seng	25,113	97.18	0.39%	14.15%
Brent Oil	50.64	0.42	0.84%	-10.88%
WTI Oil	47.74	0.41	0.87%	-11.13%
Gold	1221	2.31	0.19%	6.44%
€/$	1.0886	0.0018	0.17%	3.51%
€/£	0.8414	0.0014	0.16%	-1.42%
£/$	1.2938	0.0000	0.00%	4.85%

	Yield	Change
German 10 Year	0.45%	0.024%
UK 10 Year	1.18%	0.018%
US 10 Year	2.40%	-0.013%
Irish 10 Year	0.90%	0.027%
Spain 10 Year	1.64%	0.035%
Italy 10 Year	2.30%	0.045%

Snap (Not Rated) - Lacklustre results highlight competitive environment Previous Close: $22.98

News

Snap reported their first results post IPO yesterday which were received badly by markets. Revenue grew by 286% to $149.6m but consensus expectations had been for $158m. Daily active users (DAUs) were up 36% year on year. However, expectations on the Street had been in the range of 167-170m and the quarterly growth was not that strong. On a positive note, average revenue per user (ARPU) came in at $0.90, up 181% and ahead of consensus expectations. ARPU for the three months to March was down 14% from Q4/16 value of $1.05. Q4 is traditionally a stronger season for advertising. Daily Snaps created came in at 3.5bn, up from 3bn in Q3/16.

Comment

Shares in Snap sold off by as much at 21% as investors reacted to the missed revenue and DAU numbers. Even though we do not cover Snap, we were neutral at the time of its IPO due to its high valuation (+30bn market cap) and increased competition from Facebook & Instagram. It will need to stem the reduction in DAU growth and improve functionality on the Snap platform. Everything a user can do on Snap can now also be done on Instagram and Facebook. Snap is hiring extensively, tripling headcount over the last year but there is still a vast amount of work to do – a better API, self-serve, advertisement click measuring, targeted advertising and more functionality. Snap currently has 150 and 180 day lock up expirations beginning around the end of July. This means that approx. 84% of shares outstanding would become available for sale after that period. The share price is likely to remain volatile for the foreseeable future. Analysts are not expecting Snap to generate profit until 2019. In the meantime Facebook and Instagram may continue to make progress reducing Snaps user base. We would remain neutral on its outlook.

Will Heffernan | Investment Analyst

Adidas (Not Rated) - Divestment of golf equipment business Previous Close:€180.60

News

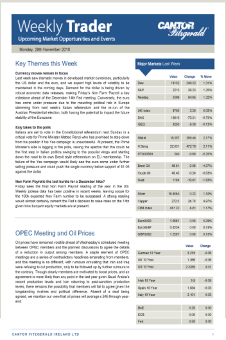
Adidas has struck a deal worth $425m to sell its TaylorMade, Adams Golf and Ashworth Gold brands to the US private equity group KPS Capital Partners. Around half of the $425m would be paid in cash and the rest in a combination of secured note and contingent considerations. Management stated that it would not change its forecast for net profit this year of between €1.2bn to €1.225bn. Management had flagged this sale last year and had already excluded golf contributions from any of its projections.

Comment

This sale had been flagged by management last year and brings a long enough disposal process to an end. The golf business had been lagging for a while due to significant drop off in playing numbers, particularly in the US. Inventories of newly launched golf products have piled up at retailers leading to a very competitive pricing environment. There has been some recovery over the last year but in general golf equipment is expected to remain a underwhelming sector with muted growth potential. Adidas decision to leave the golf equipment business was followed by Nike doing the same a few months later. This sale will allow Adidas to concentrate on the footwear and apparel markets in which it has made great progress, particularly in the US, over the last few years. We believe Adidas will continue to take market share off Nike in both these sectors in the future.

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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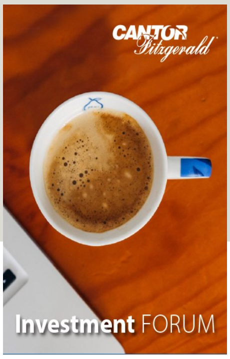

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

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Issuer Descriptions: (Source: Bloomberg)

Snap Inc. Snap Inc provides technology and social media services. The Company develops mobile camera application products and services that allow users to send and receive photos, drawings, text, and videos. Snap serves customers worldwide.

Adidas: adidas AG manufactures sports shoes and sports equipment. The Company produces products that include footwear, sports apparel, and golf clubs and balls. adidas sells its products worldwide.

Historical Recommendation

Snap Inc: Not Rated

Adidas: Not Rated

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