

Friday, 12th May 2017

Morning Round Up

UK Economic Data - A Confusing Picture

There was a slew of UK economic data out prior to the BOE meeting yesterday which pointed to some headwinds in the UK economy. Monthly data for manufacturing and industrial production showed a decline of 0.6% and 0.5% respectively. Consensus estimates had been for an increase of 0.1% in manufacturing and a decline of just 0.1% in industrial production. The year on year figures also came in worse than expectations. At the same time the constructions sector continues to shake off Brexit related effects with year on year construction output up 2.4%. The construction sector in the UK has appeared somewhat invulnerable to Brexit issues with continued expansion. However, we would expect that if UK economic data continues to worsen this sector should follow suit and contract.

Germany - Continuing to Power Ahead

German economic data continues to be the envy of Europe with first quarter performance coming in at 0.4%. This was in line with forecasts but represents the best quarterly growth rate in a year. In advance of a national election in September, the German economy appears to have the perfect confluence of characteristics – rising growth, expanding trade and falling unemployment. This is in contrast to France where recent Q1 GDP figures showed evidence of a slowdown. It is in even more stark contrast to come of the European peripheral nations, in particular Italy, who have struggled to generate any momentum when it comes to growth and productivity.

BOE - Steady As She Goes

The Bank of England announced its policy decision yesterday leaving rates and magnitude of asset purchases unchanged. In reality any changes were always going to be unlikely in advance of a national general election and Brexit negotiations. However, markets were caught a little off guard as expectations that BOE would be a little more hawkish were in the majority. Instead the vote to leave rates unchanged was 7 to 1. Markets had been expecting that number to be a little more balanced. As expected, the Monetary Policy Committee downgraded its near-term forecasts for growth while increasing estimates for 2018 and 2019. The reverse was true for inflation with forecast upgrades for the remainder of 2017 and slight downgrades in 2018 and 2019.

UK 10 year yield - 5 day price chart



Key Upcoming Events

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

Market View

Asian markets extended the sell-off of their US counterparts overnight as earnings reports from several US retailers, including JC Penny, showed that the US consumer spending power may be on the wane. US economic data had been at record highs so a decline was somewhat inevitable. However, investors have become slightly concerned about a potential slowdown in the US. Elsewhere, oil continued to hold onto gains as US stockpile numbers showed larger than expected declines. Market focus today will be on US retail sales & CPI data along with weekly oil rig counts.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	20919	-23.69	-0.11%	5.85%
S&P	2394	-5.19	-0.22%	6.95%
Nasdaq	6116	-13.18	-0.22%	13.61%

Nikkei	19,884	-77.65	-0.39%	4.03%
Hang Seng	25,152	26.32	0.10%	14.32%

Brent Oil	50.81	0.04	0.08%	-10.58%
WTI Oil	47.89	0.06	0.13%	-10.85%
Gold	1228	2.92	0.24%	7.01%

€/\$	1.086	-0.0001	-0.01%	3.26%
€/£	0.8443	0.0015	0.17%	-1.08%
£/\$	1.2863	-0.0023	-0.18%	4.24%

	Yield	Change
German 10 Year	0.41%	-0.019%
UK 10 Year	1.15%	-0.014%
US 10 Year	2.38%	-0.012%

Irish 10 Year	0.89%	-0.015%
Spain 10 Year	1.62%	-0.027%
Italy 10 Year	2.26%	-0.039%

Hibernia REIT (Outperform) - Further pre-lease announcements

Previous Close: €1.28

News

Hibernia announced further pre-lease agreements in a move that will be welcomed by markets. HubSport has extended its 16,000 sq. ft. pre-let in Two Dockland Central to 32,000 sq. ft. The initial lease was announced in February. The extension is on the same terms as the prior agreement which is at an initial rent of €52.5 per sq. ft. and 19 year lease expected to commence in August. Separately ENI, an energy company, has pre-let 5,500 sq. ft. in the same building at an initial rent of €55 per sq. ft. on a 20 year lease that is set to commence in September 2017.

Comment

This announcement illustrated the continuing healthy demand for corporate office space within Dublin. Two Dockland Central is due to complete on time with a guide target date of late 2017. With these pre-lets agreements in place 75% of the 73,000 square foot development is now let. Hibernia also announced that their serviced office partnership in Clanwilliam Court is progressing well with 75% of the 21,000 sq. ft. space and over 50% of the available co-working memberships contracted. This is significantly ahead of Hibernia's own projections. The continuing growth in the Irish economy is providing a welcome backdrop to the corporate office sector as it awaits confirmation of any possible Brexit related moves from UK firms. This demand should ensure that Hibernia have no problem fully letting the developments it currently has underway. Hibernia is currently priced at €1.2882 which is approximately an 11% discount to its 2017 estimated NAV of €1.439. We maintain our Outperform.

[Will Heffernan | Investment Analyst](#)**Allianz (Outperform) - Q1 results show strong Life & Health results & Pimco flows**

Previous Close: €173.30

News

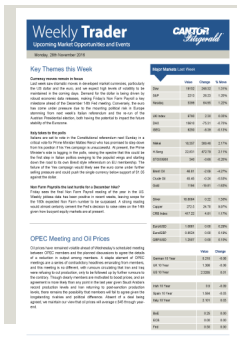
Allianz released full Q1/17 results this morning. Management had already pre-released some of the numbers on the 3rd of May but this release provided more granular detail. Q1 revenue came in at €36.2bn, ahead of market expectations of €35.87bn. Q1 operating profit was €2.93bn which was ahead of consensus expectations of €2.77bn. The major beats were in its Life & Health division which was 16% ahead of expectations and asset management which came in 2% ahead of expectations. Corporate and other charges were much lower than expected at -57% vs estimates. One key positive was the continuing turnaround in the asset management arm Pimco, saw €20.5bn worth of inflows in the quarter.

Comment

These were a solid set of results with L&H particularly strong. The bulk of the beat comes from the investment margin which continues to be well supported by capital gains and was helped by lower policy shareholding. The fee and expense margins were also better than expected. Pimco, which had gone through turbulent times following its former CEO Bill Gross's departure, has continued to recover and is now regarded as one of the premium fixed income managers again. Solvency 2 ratio increased to 212% from 209% last quarter. There were some negatives with the major one being the Property and Casualty coming in below consensus expectations. Overall these were solid results coming at a time when the environment is generally supportive of European financials. We maintain our Outperform.

[Will Heffernan | Investment Analyst](#)

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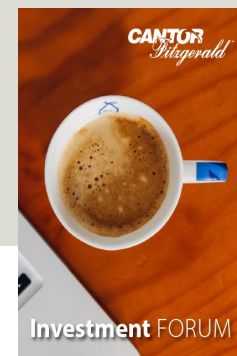
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Hibernia REIT: Hibernia REIT plc operates as a real estate investment trust. The Company invests in commercial properties including offices, industrial properties, retail stores, warehousing and distribution centers, and other related property assets.

Historical Recommendation

Allianz: We have been positive on Core Portfolio stock, Allianz since 24/04/14 and no changes have been made to the recommendation since then.

Hibernia REIT: We have an Outperform rating for Hibernia REIT since 22/08/14 and no changes to the recommendation since then.

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