

Wednesday, 31st May 2017

Morning Round Up

Dublin - Set to reap Brexit Benefits

Irish Central Bank Director of Credit Institutions Ed Sibley stated at a parliamentary hearing that "Ireland can expect to receive a meaningful share of activities that will move from the UK". He stated that the expectation is based on many meetings that the Central Bank have had to date and that there has been a "major increase" in interest from firms considering relocating to Ireland. We have also noticed a general uptick in speculation regarding Brexit moves with more concrete details than before. There has also been a noticeable increase in Central Bank positions available on recruitment websites, specifically in the insurance and asset management regulatory sphere. We believe these moves should start to occur in H2/17 and it would be beneficial for clients to retain exposure to the Dublin corporate office sector in advance. We are currently recommending both Green and Hibernia REITs as good vehicles to get that exposure.

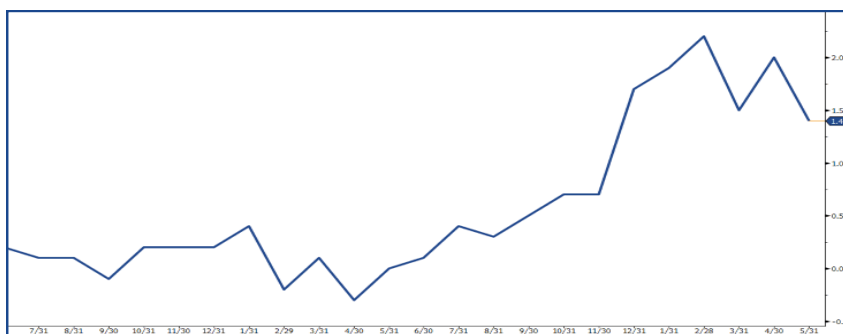
Trump – Ratcheting up divisions

After a G-7 summit where differences were laid plain for all to see, Mr Trump has continued this week in the same vein. He tweeted yesterday "We have a MASSIVE trade deficit with Germany, plus they pay FAR LESS than they should on NATO & military. Very bad for US. This will change". Tensions between Berlin and Washington have ramped up lately after Mr Trump used the G-7 summit to lecture European leaders on defence spending and climate change. Ms Merkel then shocked observers this week by stating that Germany could no longer rely on the traditional US alliance that had been a bulwark during the Cold War. All of this rhetoric does not bode well for future trade relations and increases worries about rising protectionism in developed markets.

Inflation – Slow to gain traction

Yesterday saw the release of a tranche of inflation figures which did not do much to reinforce the notion of a reflation centred period of growth. First off, Spanish inflation which had rallied to 2.6% in April, fell back to 2% in May. Inflation figures for Germany also showed a pullback, from 2% in April to 1.4% in May. Some softness was expected due to the timing of Easter this year which drove up travel costs. However, this was still below expectations of 1.6% and well down from the 2.2% high in February. These readings appear to back up Mario Draghi's argument that inflation pressures, most notably wage inflation, are not at sustained enough levels as of yet. Also yesterday, US personal consumption expenditures index (PCE), the Fed's preferred measure of inflation fell, for a third straight month from 1.6% to 1.5%.

German CPI



Key Upcoming Events

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

Market View

The pound came under pressure overnight as a YouGov study showed that there is a reasonable possibility of a hung parliament in the upcoming election. Asian equities were mixed with Japan & Hong Kong down while Australia rallied on the back of some commodity stability. Market focus today will be on German retail sales, French CPI, Eurozone CPI and US Pending Home Sales growth.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21029	-50.81	-0.24%	6.41%
S&P	2413	-2.91	-0.12%	7.78%
Nasdaq	6203	-7.01	-0.11%	15.23%

Nikkei	19,651	-27.28	-0.14%	2.81%
Hang Seng	25,707	5.02	0.02%	16.85%

Brent Oil	51.46	-0.38	-0.73%	-9.43%
WTI Oil	49.19	-0.47	-0.95%	-8.43%
Gold	1262	-1.14	-0.09%	9.97%

€/\$	1.1184	-0.0002	-0.02%	6.34%
€/£	0.8731	0.0032	0.37%	2.30%
£/\$	1.2809	-0.0050	-0.39%	3.80%

	Yield	Change
German 10 Year	0.30%	0.007%
UK 10 Year	0.99%	-0.018%
US 10 Year	2.23%	0.016%

Irish 10 Year	0.77%	-0.006%
Spain 10 Year	1.52%	-0.006%
Italy 10 Year	2.17%	-0.012%

AIB (Not Rated) - The Irish Government signals its Intention To Float a 25% stake in AIB

Yesterday evening the 30th of May, the Irish Minister for Finance, Michael Noonan filed its Intention-to-Float (ITF) document to the Irish Stock Exchange on AIB, which contains high level operational and financial information on the bank. This sets the wheels in motion for AIB to be listed on the main ISEQ Index once again. At present, 0.1% of AIB's total shares outstanding trade on Ireland's secondary equity index, the Enterprise Securities Markets (ESM) Index. In roughly 2 weeks' time, once the result of the UK General Election is known, the Irish Government will publish its equity prospectus on AIB which will contain its pricing range for the equity sale. AIB's executive management team will continue to meet institutional clients during its IPO road show over the next month to drum up potential interest in the sale. Then just before the end of June 2017 the equity sale should be complete and AIB's shares will once again begin to trade on the main ISEQ Index.

The Irish Government plans to sell-off a 25% stake of its current 99.9% ownership in the bank, as it aims to recoup part of its €20.8bn capital investment made in the bank since the 2008 financial crisis. We are positive on the underlying fundamentals of AIB which have improved greatly since 2013. In recent years it has simplified its business model further, normalised its balance sheet, improved its funding profile, paid its first dividend since 2008, and is generating capital organically which we view to be sustainable. This followed a multi-year cost cutting and rationalisation programme in the Group to ensure its solvency.

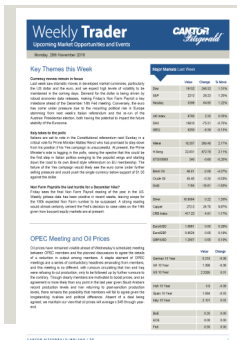
AIB is already meeting 3 of its 4 new medium term financial performance targets. The Group is looking to maintain a strong and stable Net Interest Margin (NIM) greater than 2.40%. In Q4/16, it reported a NIM of 2.42% which rose by 4bps to 2.46% in Q1/17. Management aims to achieve a Cost/Income ratio (excluding regulatory costs) below 50% by the end of 2019, reflecting a robust and efficient operating model. In 2016, the Group reported a Cost/ Income ratio of 52% and this target will likely be achieved once the €870m IT capital investment phase is complete in 2017. It aims to maintain a strong capital base with a normalised Fully Loaded CET1 ratio target above 13%. At December 2016, the Group reported a Fully Loaded CET1 ratio of 15.3% even after the payment of a €250m dividend to the Irish Government relating to FY16. Its capital position strengthened further to 16.0% at March 2017 as the Group continues to generate capital organically. Finally, the bank has a renewed focus on Risk Adjusted Return on Capital (RARoC) in making capital allocation decisions while maintaining a prudent approach to risk appetite. It aims to achieve a normalised Return on Tangible Equity (RoTE) greater than 10%+ on an annualised basis and achieved a 13.5% RoTE in 2016.

Cantor Fitzgerald has been appointed as an official participating intermediary for retail, institutional and prospective clients who are looking to take part in the equity sale. There is a minimum investment threshold requirement of €10,000 for private clients looking to participate. Commissions will be payable by the State and not by the client applying for AIB shares. For existing clients any orders can be processed via your existing account and new clients can opt to set up a new Cantor Fitzgerald account online. Once the pricing range for AIB is published, we will update our client base on our investment outlook for the bank.

Retail investors wishing to participate in the Intermediaries Offer must be accredited clients of Cantor Fitzgerald by 5pm on the 16 June 2017.

[Stephen Hall, CFA | 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

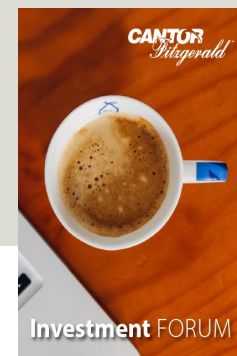
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

AIB: Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services. The Bank offers mortgage, automobile, business, plant and equipment purchase, and lease financing loans, investment banking, securities brokerage, asset management and treasury services, and discounts invoices. AIB operates in Ireland, the United Kingdom, and the United States.

Historical Recommendation

AIB: Not rated

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