

Friday, 16th June 2017

Morning Round Up

MPC forecasts UK inflation continuing to overshoot

Yesterday, the Bank of England (BOE) voted by 5 - 3 to keep the UK Base Rate unchanged at 0.25%. However, the number of dissenters increased from 1 at its previous meeting to 3 which was a significantly more hawkish development than the market had been anticipating. The Pound strengthened on the back of this announcement and 10 year UK bond yield rose 10bps to 1.03%. The market is pricing in a 26% probability of a 25bps rate hike by the BOE by the end of 2017. The rift in the BOE council comes as real UK earnings are falling as UK inflation outpaces wage growth, consumer spending is softening seen in the recent drop in UK retail sales data and during a period of increased political uncertainty for the UK. The latest inflation reading in the UK was 2.9% in May, and is expect to rise above 3% as the Pound has weakened further due to UK General Election. This is significantly ahead of the UK's 2% inflation target. The BOE feels the recent bout of inflation is transitory and weakening in the Pound is the primary reason for the weakness. The BOE is in a an extremely tricky situation as aims to stem inflation from rising too quickly without impacting a venerable economy.

Greece's creditors agree to release €8.5bn of aid

Yesterday, at a meeting between EU finance ministers, there was an agreement to release a further €8.5bn tranche of the €86bn bailout package agreed for Greece. However, a decision on whether Greece should receive debt relief or not was pushed out until August 2018. Clearly the Germans don't want this to impact their upcoming domestic general elections in September. This should give markets some near term relief as Greece has large debt repayment coming up in July. Greece's Finance Minister, Pierre Gramegna said his goal is to see his country return to the primary debt market later this year. The IMF did not participate in this bailout, and the institution is still looking for debt relief for the nation before acknowledging its outstanding debt balance is sustainable.

IMF is more positive on European economic outlook

Yesterday, the IMF released a report saying that the Eurozone economy has gained momentum. The Euro Area recovery is strengthening and becoming more broad based in its opinion. It continued to say "there should be a renewed commitment to completing the banking union, advancing capital markets union and creating a common fiscal capacity". It said the Euro Area still faces deep-rooted structural weakness and imbalances and faces risks form uncertainties surrounding global trade, Brexit and geopolitics.

1 month chart of EURGBP



Key Upcoming Events

16/06/2017—Brexit negotiations set to begin with the EU

Market View

Equities stabilised overnight after another session where US Tech stocks underperformed yesterday. The US Dollar has re-strengthened after the more hawkish policy meeting from the Fed on Wednesday where they raised rates as widely expected and laid out the plans for a reduction in the size of its \$4.5trillion balance sheet. EURUSD weakened to \$1.1150 from close to \$1.13 earlier in the week. Oil remains under pressure, and the market will be paying close attention to the Baker Hughes US oil rig count this evening to see whether the recent weakness in oil prices has led to a reduction in the number of US oil rigs in operation. Key market focus today will be Eurozone inflation data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21360	-14.66	-0.07%	8.08%
S&P	2432	-5.46	-0.22%	8.65%
Nasdaq	6166	-29.39	-0.47%	14.53%

Nikkei	19,943	111.44	0.56%	4.34%
Hang Seng	25,565	-0.05	0.00%	16.20%

Brent Oil	47.21	0.29	0.62%	-16.91%
WTI Oil	44.72	0.26	0.58%	-16.75%
Gold	1255	0.80	0.06%	9.35%

€/\$	1.1161	0.0016	0.14%	6.12%
€/£	0.8737	0.0000	0.00%	2.36%
£/\$	1.2776	0.0018	0.14%	3.53%

	Yield	Change
German 10 Year	0.30%	0.018%
UK 10 Year	1.06%	0.029%
US 10 Year	2.17%	0.007%

Irish 10 Year	0.69%	0.003%
Spain 10 Year	1.44%	0.025%
Italy 10 Year	1.97%	-0.002%

Snap Inc (Underperform) - Rollercoaster ride back to IPO price

Closing Price - \$17.00

News

Yesterday, Snap Inc, the parent company of the popular video and photo sharing app, Snapchat saw its share price retrace back to its initial IPO price at \$17 from March 2017. Within the first 3 days of its IPO its share price had initially spiked over 70% seeing its market capitalisation briefly touch a high of \$34bn. Since then concerns that slower growth in new users and engagement have weighted heavily on the stock, compounded by a very poor set of first results release in May 2017 which showed a staggering loss of \$2.2bn in just a 3 month period between January 2017—March 2017. The company has also had to contend with whistle blower alligations associated with misleading user growth data.

Comment

We would still be very concerned about the recent slowdown in Snapchat's user growth since Instagram release Instagram stories which is a direct copycat of Snapchat stories in August 2016 and could cannibalise Snapchat's growth. Its user base only grew by 5 million users in the 1st quarter of 2017 to 166million users which is very worrying for an early stage social media start up. The business is due to generate \$987bn in revenue in 2017, however is set to report loss of \$851m and operates at negative gross margins. The app's USP is its ability to target advertisement towards millennials, however the biggest risk facing the company is its user base migrating to Facebook. The Group still trades at a whopping 17x FY17e revenues, compared to 4x at Twitter and 10x at Facebook. Another near term headwind for the stock is the expiration for the IPO lockup period on the 30th July. After this date company employees can sell down any shares they were granted as part of the IPO deal. We advise clients not to be tempted to buy the weakness.

[Stephen Hall, CFA | Investment Analyst](#)**Kingspan** (Outperform) - Reiterate outperform rating on Kingspan

Closing Price - €29.70

News

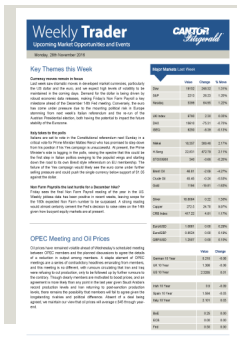
Kingspan recently broke through the downside of a well defined upward sloping trend channel which had been in place between November 2016—May 2017. Technically, its share price has posted a series of higher highs, and higher lows over the past several months. It is currently trading 11.6% below all-time highs, and we expect any retracements/ pullbacks to be relatively shallow in nature. 1st key support comes in at €28.96, which we expect to hold in the short term. We remain positive on the fundamental outlook for the Group over a multi-year horizon and it remains a buy on dips in our view. Penetration levels of Kingspan's key products are set to structurally increase due to regulatory changes and environmental awareness of the construction sector for many years to come. Company earnings are due to benefit from structural and cyclical tailwinds over the coming years. In our opinion, Kingspan has made great strides towards becoming the world's leading provider of low energy buildings through sector leading innovation and through effective capital allocation by senior management. The Group continues to expand its geographical footprint too, and is in the early stages of growth in Asia which could be a big expansion opportunity. When management released Q1/17 results, it said order backlog overall points towards a solid H1/17. This set of H1/17 results are due to be released on the 18th August.

Comment

The Group's Net Debt/ EBITDA position is expected to fall to 0.6x by year-end which leaves it with significant headroom for further bolt-on acquisitions, similar to the very successful Vicwest and Joris Ide acquisitions in recent years. Such an announcement would be a near term catalyst in our opinion, however there is no visibility on the timing of such a deal. 1st key support comes in at €29, 6% below current levels, however we're not convinced it will re-test this level in the near term, and would be comfortable adding to positions at current market prices.

[Stephen Hall, CFA | Investment Analyst](#)

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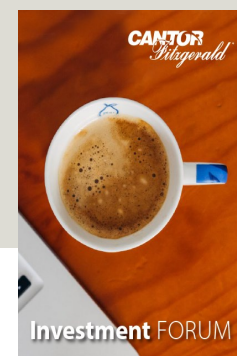
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Snap: Is a social media app which generates revenues through advertisement. Its user base is typically millennials.

Kingspan: Kingspan Group PLC is a global market player in high performance insulation and building envelope technologies.

Historical Recommendation

Kingspan: We have changed our rating for Kingspan from Not Rated to Outperform on the 14/03/2016.

Snap: We have had an under perform rating on Snap since its IPO date.

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