Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 21st June 2017

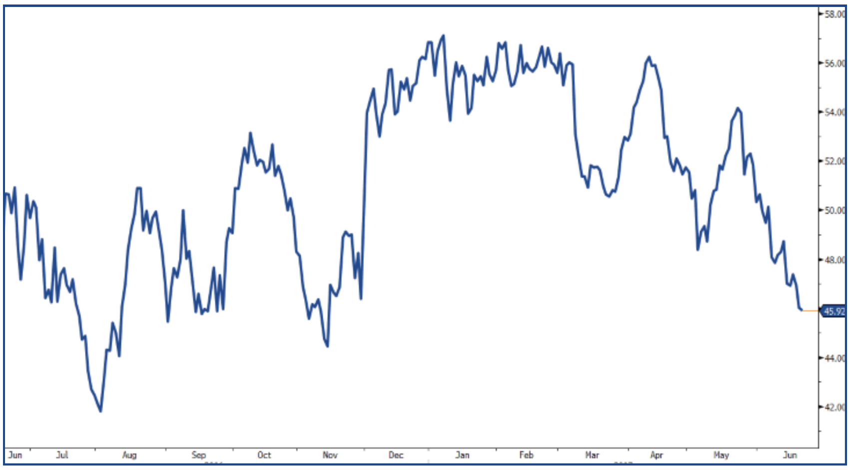
Morning Round Up

George Soros on Brexit.
Billionaire investor George Soros has commented that the UK is "fast approaching the tipping point that characterizes all unsustainable economic developments," Economic reality is catching up with the U.K., leaving the European Union will lead to lower living standards, and signs are now emerging that consumer spending is faltering as the weaker pound drives up prices. Bank of England Governor Mark Carney has said domestic inflation pressures remain subdued and signalled he isn't in a hurry to raise interest rates. Soros has speculated Britain's eventual exit from the EU will take at least five years to complete and there will be another general election.

Hammond, Carney Fight for City of London
Chancellor of the Exchequer Philip Hammond and Bank of England Governor Mark Carney joined forces to defend the financial-services industry as the government seeks to shift its Brexit focus away from controlling migration to safeguarding jobs. Carney called for a new system of cooperation over derivatives clearinghouses amid industry warnings that forcing the biggest firms to move would lead to skyrocketing costs and job losses. Major banks in London have warned the loss of so-called passporting arrangements, which allow them to operate across the EU from any member state, will probably lead them to relocate jobs and activities in European cities such as Frankfurt, Paris and Dublin. However, the prospect of a softer Brexit deal could result in lenders staying put.

Oil Drops to Seven-Month Low as Libya Adds to Persistent Surplus
Oil dropped to the lowest in seven months amid a revival in output from Libya and rising volumes of fuel held in floating storage. Futures lost as much as 2.9% in New York on Tuesday after falling 1.2% Monday. Libya is pumping the most crude in four years after a deal with Wintershall AG enabled at least two fields to resume production. Oil slipped below $45 a barrel as supplies in the U.S. remain plentiful and drillers continue to add rigs, raising concerns output cuts by the Organization of Petroleum Exporting Countries and allies including Russia won't succeed in draining bloated stockpiles. Elsewhere in the next two weeks Iran and France's Total SA expect to sign a contract to develop part of the world's biggest natural gas field in what would be the Persian Gulf country's first investment by an international energy company since sanctions were eased last year.

Oil - price chart



Key Upcoming Events

21/06/17 - US Housing Data
26/06/17 - US Durable Goods Orders

Market View

Oil prices officially entered a bear market yesterday. Concerns over increased production from Libya and a persistent global oil glut saw WTI and Brent oil prices close below $43 and $46 respectively. This dragged the oil equity sector lower and in turn weighed on global risk sentiment. 10 year Treasury yields drifted marginally lower towards 2.15%. Bank of England Governor, Mark Carney was out saying he was still concerned about the potential impact of Brexit on the UK, and the Pound weakened materially as a result countering the strength seen last week following the 3 dissenters at the BOE council meeting. Key market focus today will be EIA oil data today at 3:30pm to see its impact on oil prices.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21467	-61.85	-0.29%	8.63%
S&P	2437	-16.43	-0.67%	8.85%
Nasdaq	6188	-50.98	-0.82%	14.95%
Nikkei	20,139	-91.62	-0.45%	5.36%
Hang Seng	25,720	-122.69	-0.47%	16.91%
Brent Oil	46.04	0.02	0.04%	-18.97%
WTI Oil	43.53	0.02	0.05%	-18.97%
Gold	1245	2.42	0.19%	8.53%
€/$	1.1131	-0.0003	-0.03%	5.84%
€/£	0.8828	0.0012	0.13%	3.43%
£/$	1.261	-0.0019	-0.15%	2.19%

	Yield	Change
German 10 Year	0.26%	0.002%
UK 10 Year	0.99%	-0.006%
US 10 Year	2.16%	0.000%
Irish 10 Year	0.67%	0.010%
Spain 10 Year	1.39%	0.004%
Italy 10 Year	1.92%	0.006%

AIB - Pricing range narrows to €4.40 - €4.60

News

On the 12th of June, the Department of Finance (DOF) published the Equity Prospectus and set the price range for the upcoming 25% equity sale of its shareholding in Allied Irish Banks (AIB). The equity price range was originally set between €3.90 - €4.90 a share which values AIB with a market cap range of between €10.6bn - €13.3bn. This equity sale would raise between €2.6bn - €3.3bn for the Irish State. Yesterday evening, the Department of Finance and the Joint Global Co-ordinators released an updated pricing range which narrowed to €4.20 - €4.60. Taking the mid-point of this price range of €4.40 it would value the bank at €11.9bn.

Comment

The bank has returned to sustainable profitably in the region of €1bn annually, and has a CET1 ratio of 16% at March 2017. AIB's Net Interest Margin position was 2.46% as at March 2017. We are no longer taking orders for the upcoming AIB IPO. The final price and allocation will be available before market opens (8am) on Friday 23rd June. Conditional trading begins at 8am that same day and unconditional trading begins Tuesday the 27th June at 8am.

Please refer to page 4 for disclaimers associated with this article.

Stephen Hall, CFA | Investment Analyst

Siemens (Outperform) - Buy on recent weakness Closing Price - €139.23

News

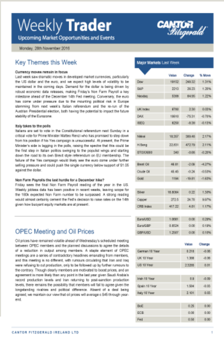
Siemens share price has fallen 4% over the past week or so after CEO Joe Kaeser reiterated that second-half revenue and profit at its power and gas divisions will be "clearly below" the prior year at a JP Morgan investors conference in the UK. He also stated that their Brazilian division has had another year "wasted" with momentum shifting towards Argentina. Management expect moderate growth in the US market and momentum to continue to gain pace in the EU.

Comment

The slowdown in second half P&G revenue had already been flagged by the Siemen's CFO earlier in the year so it is a bit puzzling that the market has reacted the way it has. In general the industry is facing problems in P&G in the near term. However, Siemens are currently engaged in a restructuring program called "Vision 2020". This includes selling off their underperforming/lower margin businesses such as light bulbs, Healthineers and Locomotives and concentrating the more streamlined business in higher margin areas with bigger growth potential, most notably factory digitalisation and automation. Siemens is much better place than its peers to be a market leader in this area due to its substantial investment in best in class software and robotics. The valuation case also makes sense with Siemens trading on a 2017 EV/EBITA of ~11x and a PE of ~14-15x, dividend yield of 3.2% and FCF yield approaching >6%. From a historical perspective Siemens is currently at a slight discount to its historical P/E. All of the above metrics compare very favourably with peers. Management also guided for an increase in EPS recent from €6.8 - €7.2 to €7.2 - €7.7. Despite the recent price softness we believe the current restructuring program will benefit Siemens well into the future. We maintain our Outperform.

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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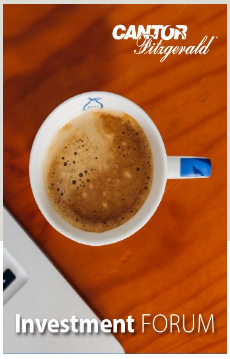

Investment Forum

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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.

Siemens: Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy. Siemens AG also provides engineering solutions in automation and control, power, transportation, and medical.

Historical Recommendation

Siemens: We changed our rating to Outperform on the 30/01/02017.

AIB: Not rated

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