

Tuesday, 11th July 2017

Morning Round Up

PIRA energy forecast US crude oil exports to exceed most OPEC members by 2020

A report from PIRA energy forecasts that crude oil exports will grow to 2.25m barrels a day by 2020 which will be greater than most OPEC members primarily driven by US shale production. The US currently exports c. 520k barrels a day compared to 2.1m in Kuwait and 1.7m in Nigeria. This means the US will break into the top 10 for the world's largest oil exporters. In 2015, Obama overturned a 40 year ban on US companies from exporting crude oil. This is another worrying signal for OPEC which has no controls over the supply of US oil production and has been a major variable behind the recent glut in oil supply.

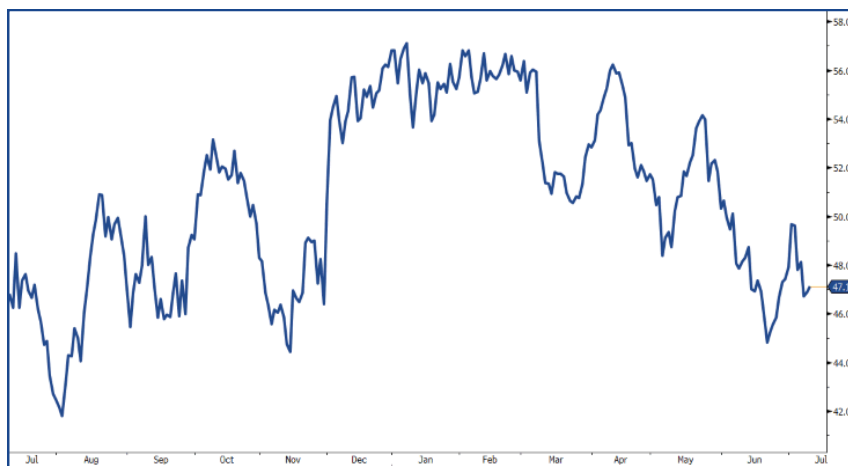
Janet Yellen to testify before US Congress tomorrow

Investors will be paying very close attention to Janet Yellen's testimony to US Congress tomorrow for clues on the future path of rate hikes and the Fed's plans to unwind its \$4.5 trillion balance sheet. The market expects the Fed to make announcement to reduce its balance sheet as early as September 2017 where it could stop reinvesting flows from Treasuries maturing. There is a big divergence between the Fed's dot plot which shows four additional 25bps rate hikes before the end of 2018, compared to just 45bps which is currently being priced by the market. In the recent Fed minutes the Fed was noted as saying it considers US equities to be "somewhat rich" in valuation terms. Further clarity on this comment will be closely followed.

Donald Trump Jnr held Russia meeting to get Clinton information

Yesterday, Donald Trump Jr.'s lawyer acknowledged Donald Trump's son meet up with a Russian lawyer after receiving an anonymous email saying a person had potentially damaging information on Hillary Clinton which could benefit Donald Trump in the election campaign. Trump's lawyer said the meeting between the two parties amounted to nothing. Trump's campaign manager at the time, Paul Manafort and trump's son-in-law, Jared Kushner also attended the meeting. President Trump is now facing two complaints from watchdog group over a possible violation of US election laws which prohibits campaigns from knowingly accepting funds or information from foreign governments. President Trump previously denied any meetings took place between his campaign team and any parties associated with the Russian government. This story will likely drag on for several weeks to come.

Oil - 1 year price chart



Key Upcoming Events

- 12/07/17 BOC rate announcement
- 12/07/17 Chair Yellen testimony to Congress

Market View

European equities have opened higher this morning following on from a positive start to the trading week. Key focus for the market this week will be Janet Yellen's testimony on monetary policy to Congress on Wednesday for further clues on monetary policy from the Fed in 2017 and beyond. The US Dollar has re-strengthened following the solid US jobs reports last Friday with EURUSD trading below \$1.14 once again. We are also see some consolidation in global bond yields after a big back up in bond yields seen last week. Italian industrial production is the key economic data release today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21409	-5.82	-0.03%	8.33%
S&P	2427	2.25	0.09%	8.42%
Nasdaq	6176	23.31	0.38%	14.74%

Nikkei	20,195	114.50	0.57%	5.66%
Hang Seng	25,902	402.34	1.58%	17.74%

Brent Oil	47.11	0.23	0.49%	-17.09%
WTI Oil	44.62	0.22	0.50%	-16.94%
Gold	1210	-4.16	-0.34%	5.46%

€/\$	1.1399	0.0000	0.00%	8.39%
€/£	0.8835	-0.0015	-0.17%	3.51%
£/\$	1.2902	0.0021	0.16%	4.55%

	Yield	Change
German 10 Year	0.57%	0.029%
UK 10 Year	1.31%	0.039%
US 10 Year	2.39%	0.020%

Irish 10 Year	0.95%	-0.003%
Spain 10 Year	1.71%	0.036%
Italy 10 Year	2.33%	0.048%

Source: Bloomberg, CF Research July 2017

Grafton Group (Market perform) - Strong trading update but uncertain UK outlook

Closing Price - £7.09

News

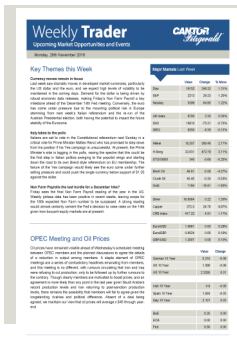
Grafton released a trading update this morning posting strong results for the first half of the year. The Group performed strongly in the first half of the year with revenue increasing by 9% to £1.34bn. This was up 6.2% in constant currency terms. Like for like Group revenue increased by 5.7%. Selco reported double digit revenue growth driven principally by the opening of six new branches. Management confirmed it remains on track to open at least a further 10 branches this year. The traditional UK Merchanting business also had good LFL revenue growth and continues to benefit from the 2016 restructuring. Ireland continues to perform strongly with good volume growth while the Netherlands business also performed well. Following a poor first quarter, the Belgian business recovered somewhat in the first quarter.

Comment

This was a strong trading update from Grafton which continues outperform all of its UK peers. Diversification of revenue away from the UK has helped with the Irish and Netherlands business performing particularly well. Performance has also been solid in its Irish retailing business. CEO Gavin Slark maintained a positive tone in his outlook, stating "performance which was better than we anticipated and provides a good platform for the full year. Looking ahead, we expect to continue to benefit from both our strong market positions and exposure to multiple geographies and for the positive trends in the Irish and Netherlands businesses to continue in the second half". However, regarding the UK the tone was more pessimistic with optimism for the medium term outlook while remaining "cautious about the shorter term impact of current uncertainty and pressure on real incomes which may temper growth in spending on housing RMI." Building materials' distributors exposed to the U.K. are facing a combination of revenue and margin headwinds. Volume growth is threatened by weakening U.K. construction end markets (housing in particular) and consumer confidence, while margins are also at risk from rising cost inflation, exacerbated by weak sterling. Mortgage approval growth has been positive in only 3 of the last 12 months. At the same time consumer sentiment surveys consistently show a decline in positive sentiment and highlight the increasing worries of UK consumers. We believe that this will impact the UK merchanting sector in the near term. We maintain our Market Perform.

[Will Heffernan | Investment Analyst](#)

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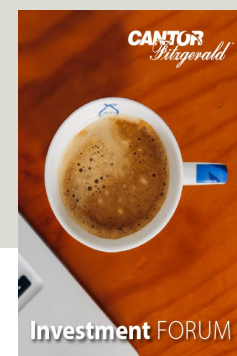
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Grafton Group: Grafton Group PLC manufactures and retails building supplies.

Historical Recommendation

Grafton Group: We updated our recommendation from under review rating to market perform on 15/02/17 .

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