Wednesday, 16th August 2017

Morning Round Up

Cantor Outlook on EURGBP

Our call at the beginning of 2017 was for the Pound to weaken further against the Euro, and for EURGBP to reach 90p. It has since rallied to 91p as recent UK inflation data came in softer than expected which reduces the likelihood of a rate hike from the Bank of England in the near term. We see risks that EURGBP can grind higher due to a number of factors. The European economy is outperforming the UK, the Eurozone runs a current account surplus unlike the UK which has consistently ran a current account deficit. We see the BOE maintaining a dovish stance and the BOE Governor, Mark Carney appears to be looking through above target inflation readings in anticipation of a slowing UK economy. On the other hand, there is a chance the ECB could begin to taper its on-going QE programme which would give the Euro a bid. We think EURGBP could rally towards 94p over the next 6-12 months. If the UK Government can reach a softer Brexit agreement this would ultimately be supportive of the Pound.

Focus on Fed outlook

The minutes from the July 25-26 Federal Open Market Committee are released today and should give analysts' a clearer picture of the Fed's thinking into the second half of the year. Analysts will focus on how many policy makers remain steadfast in their resolve to raise rates this year and how many are softening after 5 months of below par inflation data. The Fed's preferred measure of inflation slowed to 1.4% in June which is well below its target of 2%. A very healthy jobs market has yet to trigger wage inflation in any material way. Separately analysts will also be looking for more details regarding the unwind of the Fed balance sheet with an expectation of an announcement in September.

Euro rally vs US dollar contained for now

We had been guiding investors to expect a pullback in the recent EURUSD rally based on stretched positioning and some technical indicators. The pricing action is working out as we expected with EURUSD moving from a high of $1.187 to $1.1752 as of yesterday. This was helped in part by very strong US retail numbers yesterday. US retails sales grew 4.2% YoY, well ahead of 3% estimates. This set of data, allied with how stretched long euro/ short dollar positioning was implies that the euro will continue to decline against the dollar in the immediate short term. This should be a positive for European stocks whose recent sell off correlates with the recent bout of euro strength. From a longer term perspective the Jackson Hole Symposium next week is a critical factor. Recently there has been heightened expectations that Mr Draghi will use the event to talk down the currency. His words at the event are likely to dictate the euro's path through to year end.

EURUSD - 1 month price chart

Source: Bloomberg, CF Research August 2017

Key Upcoming Events

24/08/17 Jackson Hole Symposium

Market View

European equities continue to recover this morning as geopolitical concerns between the US and North Korea reverse and as EURUSD trends lower on the back of very strong US Retail Sales and Empire Manufacturing data yesterday. The API showed a massive 9 million barrel drawdown in US crude inventories yesterday which gave oil a small bid. The pound continues to weaken against the Euro as UK inflation data came in softer than expected which reduces the likelihood of a rate hike from the BOE. Key market focus today is the release of the US Fed minutes, Eurozone GDP and UK employment data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21994	5.28	0.02%	11.29%
S&P	2466	-1.23	-0.05%	10.14%
Nasdaq	6340	-7.22	-0.11%	17.78%
Nikkei	19,753	-24.03	-0.12%	3.34%
Hang Seng	27,350	175.33	0.65%	24.32%
Brent Oil	50.73	0.23	0.45%	-10.72%
WTI Oil	47.52	0.19	0.40%	-11.54%
Gold	1274	-1.38	-0.11%	11.02%
€/$	1.173	-0.0005	-0.04%	11.53%
€/£	0.9067	0.0006	0.07%	6.23%
£/$	1.2947	-0.0014	-0.11%	4.92%

	Yield	Change
German 10 Year	0.44%	0.009%
UK 10 Year	1.08%	0.013%
US 10 Year	2.27%	-0.007%
Irish 10 Year	0.78%	0.005%
Spain 10 Year	1.46%	-0.014%
Italy 10 Year	2.04%	-0.012%

Source: Bloomberg, CF Research August 2017

Ryanair - Air Berlin filing for insolvency, presents growth opportunity — Closing Price - €19.23

News

News that Air Berlin filed for insolvency yesterday supported all European airlines with exposure to Germany which included Ryanair which rose over 3% yesterday and closed at a new all-time high at €19.23. Germany is a core growth region for Ryanair which currently has a 8% market share which it aims to grow to 20% within the next 3-5 years. Air Berlin is the second largest airline in Germany followed by Ryanair in 3rd position. There has been a lot of speculation that Ryanair's largest competitor in Germany, Lufthansa would acquire Air Berlin, however Ryanair has re-iterated its stance today that such a deal would breach European anti-competition rules. Air Berlin is the second European airline to file for bankruptcy this summer following Alitalia in Italy and this will undoubtedly present opportunities for Ryanair to capture further market share in these regions and support earnings growth. This is further evidence that legacy carriers are struggling to compete with more efficient, lower costs peers like Ryanair. TAP in Portugal and LOT Polish Airline in Poland are also going restructuring operations. Ryanair's CMO, Kenny Jacobs said in a weekend newspaper interview that he expects on-going consolidation within the European airline space, and the sector will eventually replicate with US with a smaller number of larger operators.

Comment

In terms of price action, towards the end of July 2017, after Ryanair's Q1/18 results its share price fell c. 10% within 72 hours from peak-to-trough as management's guidance on yields for Q2/18 was softer than the market had been anticipating. We had advised clients to add to positions on weakness are constructive on the long term growth prospects of the airline and its ongoing €600m share buyback is dampening volatility and supporting the stock. As of today, Ryanair had bought back bought back €330m (55%) of its own stock. A weakening Pound is a headwind to reported earnings and for every 1p move higher in EURGBP, net income reduced by roughly €15m. We continue to like Ryanair on a multi-year horizon given its competitive advantage on yields and fares which should enable it to continue to capture market share off less efficient operators. If Ryanair can manage to grow ancillary revenues through its Ryanair Holidays or Ryanair Rooms offerings, this could provide an upside surprise to earnings growth potential in further years which isn't yet priced into analyst's forecasts. The stock has re-rated to 15.2x FY18e earnings, and the market is already forecasting net income of €1.51bn for FY18, which is 6% above the mid-point of management's range. Therefore it seems the market is ignoring management's extremely bearish yield guidance for the key summer months. We think €20 is the next near term target for the Group.

Stephen Hall, CFA | Investment Analyst

Amazon - Healthy demand for bond issuance — Closing Price - $982.74

News

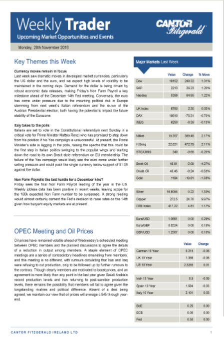
Amazon solid $16bn of unsecured bonds in seven tranches yesterday in order to fund its $13.7bn acquisition of Whole Foods. Demand for the issuance was quite healthy with the longest dated bonds, 40 year securities, sold with a yield just 1.45% above US Treasuries. Estimates beforehand had put this spread at between 1.6 – 1.65%. The debt sale marks Amazon's first since 2014. Amazon currently has $21bn in cash on its balance sheet but management decided it needed to preserve cash for ongoing investment activities. Considering the current low-rate environment it is also an opportune time to issue debt. This route is cheaper and gives management greater flexibility for future investment.

Comment

The appetite for this debt issuance highlights just how much traction Amazon's investment case has at the minute. Amazon's debt position remains quite health having only had $7.8bn of debt outstanding prior to this issuance. Despite the immediate increase in debt, the Whole Food acquisition remains an overall positive as it gives Amazon greater scale and a large footprint in the bricks-and-mortar retail segment. This is a sector that Amazon could disrupt significantly and has huge long term growth potential for Amazon. We continue to believe that the potential areas for Amazon to expand into are numerous and it is a material threat to many established business in a wide variety of sectors. Prior its last earnings release Amazon was up 38% YTD and we had been guiding clients to be cautious regarding buying in at these levels. It has since declined 7% and is now 17% away from its consensus price target of $1150.33. US Tech has suffered over the last few weeks due to investors taking profit and rotating to other sectors. In the immediate short term there may be a little left in this decline and price action could be weak. It is currently pricing at $982.74 and a 10% decline from highs is at approx. $945 - $950. From a longer term perspective we like current levels as a buy in opportunity.

Will Heffernan | Investment Analyst

Cantor Publications & Resources



Weekly Trader

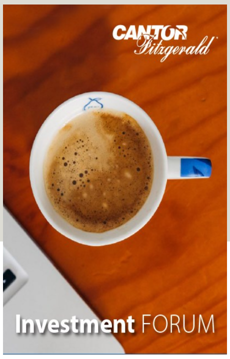
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

[Click Here]

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.

[Click Here]



Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

[Click here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe. ICG: Irish Continental Group plc markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe.

Amazon: Amazon is an online retailer that offers a wide range of products

Historical Recommendation

Ryanair: Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then

Amazon: We have an Outperform recommendation for Amazon since 26/07/13, and no changes have been made since then.

http://www.cantorfitzgerald.ie/research_disclosures.php

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retails clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendations or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchased or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

Conflicts of Interest & Share Ownership Policy

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.

Dublin: 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.
email : ireland@cantor.com **web :** www.cantorfitzgerald.ie
Twitter : @cantorIreland **Linkedin :** Cantor Fitzgerald Ireland