Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Tuesday, 1st August 2017

Morning Round Up

Banks' cost set to rise by 4%, while 40,000 jobs at risk in the UK

Yesterday, Oliver Wyman published a detailed report on the impact on UK domiciled banks' costs and their capital position as a result of Brexit. The consultancy firm estimated that bank's costs on average will rise by 4% while capital requirements will increase by 30%. HSBC recently reported that Brexit would have an immediate $200m to $300m cost for the global bank, and its CEO, Stuart Gulliver said $1bn of revenue from its global banking and markets division would be "at risk". All UK banks are currently working on their exit strategies for Brexit which have to be submitted to the Bank of England. This report also suggests that Brexit could force 31,000 – 35,000 jobs out of the country. In the worst case scenario, where Euro clearing is moved to the Eurozone from the UK, 40,000 jobs could be at risk.

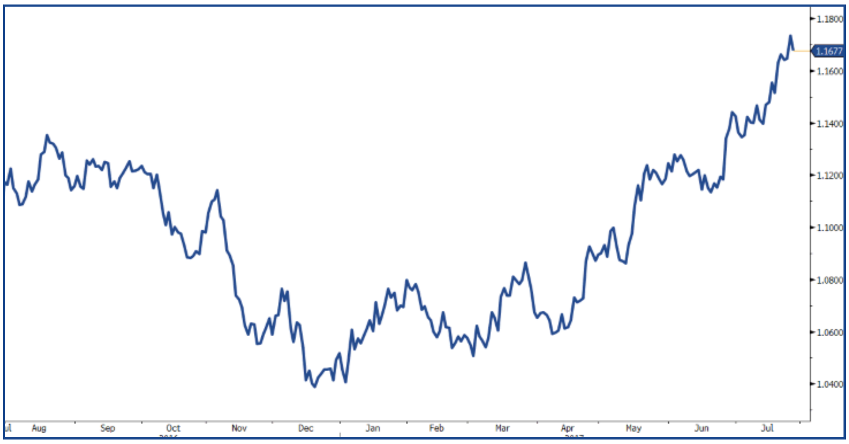
Prospects of a rate hike from Bank of England meeting fade

This Thursday, the Bank of England will publish an updated set of economic growth and inflation forecasts, however the most recent UK inflation for June reading fell to 2.6% from 2.9% the previous month, meaning longer term inflation forecasts may ease. This latest inflation reading is still above the BOE's 2% inflation reading. This has reduced the probability of a 25bps rate hike to just 40% from 56% a month ago. Last month, the BOE voted 5-3 in favour of keeping the UK Base Rate unchanged at 0.25%. However, economists now expect this will fall back to 6-2 votes this Thursday, as the new voting member Silvana Tenreyro replaces Kristin Forbes who voted for a hike last month. Consensus economist growth forecasts polled by Bloomberg are now below the BOE's growth forecasts for 2017 and 2018.

Stronger Euro showing signs of pressure on European Earnings

So far in Q2/17 earnings season, 264 companies within the Euro Stoxx 600 Index have reported earnings. Only 56% of these companies have beat on earnings compared to 66% in Q1/17. The Euro's recent ascendancy against most major G10 currencies is being partially blamed for this softer outcome and consensus earnings growth forecasts in Europe are being revised lower by analysts as a result. Analysts' now expected 13% earnings growth in 2017, down one percentage point from 14% at the beginning of June. This hasn't stopped investors pouring capital into European funds in 2017.

EURUSD - price chart



Key Upcoming Events

03/08/17 - BOE Decision

Market View

The Caixin China Manufacturing PMI rose for a second straight month overnight which is helping risk assets open higher this morning in Europe. EURUSD continues to make new highs in 2017, reaching $1.1840 this morning. We have a lot of European data this morning which should give EURUSD direction today. Oil prices have recovered to 2 month highs with Brent oil prices at $52.70, as investors believe the market is tightening. Key market focus today is Eurozone GDP, Eurozone and UK Manufacturing PMIs, German unemployment data, and Q2/17 earnings from Heidelberg Cement, Intesa and Natixis and Apple reports after the close tonight.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21891	60.81	0.28%	10.77%
S&P	2470	-1.80	-0.07%	10.34%
Nasdaq	6348	-26.55	-0.42%	17.93%
Nikkei	19,986	60.61	0.30%	4.56%
Hang Seng	27,512	187.91	0.69%	25.05%
Brent Oil	52.73	0.01	0.02%	-7.20%
WTI Oil	50.21	0.04	0.08%	-6.53%
Gold	1268	-1.08	-0.09%	10.53%
€/$	1.1822	-0.0020	-0.17%	12.41%
€/£	0.8947	-0.0014	-0.16%	4.82%
£/$	1.3214	-0.0001	-0.01%	7.08%

	Yield	Change
German 10 Year	0.56%	0.012%
UK 10 Year	1.23%	0.012%
US 10 Year	2.30%	0.009%
Irish 10 Year	0.85%	0.009%
Spain 10 Year	1.50%	-0.001%
Italy 10 Year	2.10%	0.001%

Source: Bloomberg, CF Research July 2017

DCC - UK acquisition announced Closing Price - £66.65

News

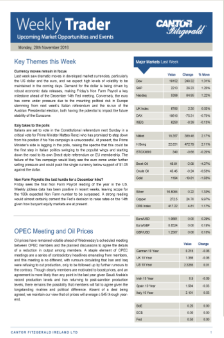
DCC announced this morning the acquisition of MTR Limited. MTR is a UK based company that provides second lifecycle solutions for mobile and tablet devices. Base in Harlow and employing 60 people, MTR Partners with retailers, mobile handset manufacturers and insurance companies to source and refurbish mobile phones and tables for resale in the UK and abroad. In the year to 30 November 2016 MTR generated revenues of £11m. MTR recently signed an agreement with Samsung for to run its device trade-in program in the UK for the next 3 years. This was on top of an already signed 5 year deal to run Samsung's UK repair program. MTR conducted more than 70,000 repairs last year and recently moved from a 3,000 sq. ft. facility to a 13,000 sq. ft. facility. There were no details released regarding the price paid for MTR.

Comment

DCC management have always stated that they remain committed to continuing acquisitions but will be selective in their targets. There was very little detail in the release but we welcome the addition into DCC's technology portfolio. The fact that MTR retains an exclusive relationship with Samsung is also a positive. However, in the context of a £5.9bn market cap company, this acquisition is unlikely to move the dial. In our most recent note we had been guiding investors to purchase DCC stock during the recent weakness. We are still of that opinion. The company fundamentals remain sound with a consistent track record of earnings beats and upgrades. Net debt/EBITDA remains very healthy at 0.92x with £1.04bn in cash on the balance sheet. Management have stated that there are plenty of opportunities in the M&A pipeline. Recent Euro strength allied with sterling weakness and Brexit pessimism may be some of the factors causing the recent sell-off. However, we believe this is transitory and DCC should re-rate higher by the end of the year.

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.

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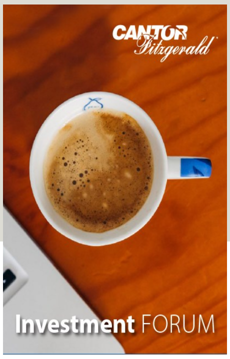

Investment Forum

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

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)
DCC: DCC is a sales, marketing, distribution and business support services company.

Historical Recommendation
DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated.

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