Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 4th August 2017

Morning Round Up

EM – Flows Picking Up

With MSCI Emerging Markets up 23% year to date and outperforming developed markets indices, it seems investors' appetite for EM exposure continues to grow. Data released yesterday show fund flows into EM were at their highest level since 2014 last week. $2.2bn of inflows in the week to August 2 were recorded. EM bond funds had $1.9bn of inflows according to data tracked by EPFR. Strong economic data from emerging economies allied with a weaker US dollar has helped turn around investor sentiment towards EM. Economic growth is generally stable, current account balances are heading in the right direction and EM currency volatility has been low of late. From a multi-decade perspective EM, in particular Asia, remains on course to be the global growth engine of the future.

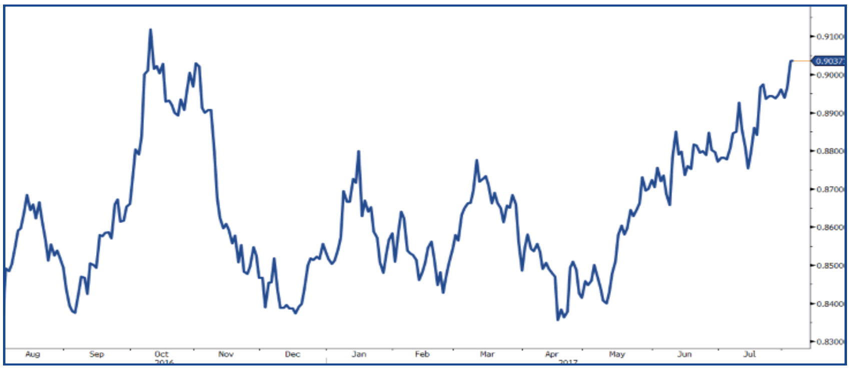
USD – Continued Weakness

US dollar continues to weaken against the euro. Yesterday EURUSD moved to $1.188. We had been guiding investors for EURUSD to be around the $1.20 - $1.21 mark by the end of the year. However, long euro positioning is now very stretched and we had been expected a pull-back in the short term. This has yet to happen as the dollar side continues to weaken on the back of more political turmoil in Washington. News was released yesterday that Special Counsel Robert Mueller has selected a grand jury in order to assess the viability of criminal charges or indictments against defendants. This is a ramping up of the investigation and indicates to us that it is not going to go away any time soon. Also yesterday, US Services PMI came in at 53.9 vs Street estimates of 57 which would have also weighed on the dollar.

BOE – Dovish Turnaround

The BOE met yesterday and voted 6-2 in favour of no hike. This was a change from a 5-3 vote from the last meeting. This dovish move was backed up by both changes to BOE projections and Governor Carney's statements in the press conference. BOE economists reduced their expectations for UK growth to 1.7% and 1.6% in 2017 and 2018 respectively. This was previously at 1.9% and 1.7%. Mr Carney emphasised the importance of Brexit negotiations to the near term growth prospects of the UK economy; of all the factors determining the economy's fate, "the most important is the outcome of the Brexit negotiation". He also hinted at a potentially complex process with "the assumption of a smooth transition to a new economic relationship with the EU will be tested". EURGBP rose to £0.903 and the prospects of a BOE hike by the end of the year dropped to 33%.

EURGBP - price chart



Source: Bloomberg, CF Research July 2017

Key Upcoming Events

24/08/17 Jackson Hole

Market View

Asian markets were mixed overnight as new of Robert Mueller's grand jury selection broke. The Reserve Bank of Australia also lowers it economic growth forecasts for this year to 2% which did not help. Europe managed to generate positive performance despite a rally in the euro, which had been a catalyst for negative performance recently. Market focus today will be on US non-farm payroll numbers which is expected to increase by 180k. Analysts will also be paying attention to wage inflation which is expected to tick up by 0.3%.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22026	9.86	0.04%	11.45%
S&P	2472	-5.41	-0.22%	10.42%
Nasdaq	6340	-22.30	-0.35%	17.78%
Nikkei	19,952	-76.93	-0.38%	4.38%
Hang Seng	27,541	9.70	0.04%	25.18%
Brent Oil	51.97	-0.04	-0.08%	-8.54%
WTI Oil	48.99	-0.04	-0.08%	-8.80%
Gold	1269	0.79	0.06%	10.62%
€/$	1.1881	0.0011	0.09%	12.97%
€/£	0.9036	0.0002	0.02%	5.87%
£/$	1.3148	0.0010	0.08%	6.55%

	Yield	Change
German 10 Year	0.46%	0.003%
UK 10 Year	1.16%	0.006%
US 10 Year	2.22%	0.003%
Irish 10 Year	0.75%	0.005%
Spain 10 Year	1.47%	0.016%
Italy 10 Year	2.00%	0.009%

Source: Bloomberg, CF Research July 2017

FBD - Continued progress in H1/17 Closing Price - €8.40

News

FBD reported a strong set of H1/17 results this morning. It reported profit before tax of €11.9m (€3.6m loss in 2016) and an underlying EPS of 30c. Gross Written Premiums (GWP) were up 4.9% (€8.9m) to €189.7m vs. €180.8m in H1/16. The Group benefitted from strong customer retention and new business performance its Farm, Small Business and Consumer business lines. Its Combined Operating Ratio ("COR") fell to 93.1% vs. 101% in H1/16, a reading below 100% suggests a return to profitability. This improvement included a one-time €5.6m MIBI provision release following the Setanta Supreme Court judgement ("the MIBI levy release"). The Group is now targeting modest growth in our core areas while continuing to apply underwriting discipline. Management had targeted a mid-nineties to high-nineties COR for 2017. It Loss Ratio improved from 78.9% in H1/16 to 70.5% in H1/17 due to better risk selection and improved price adequacy, and also from a benign period of adverse weather events. Its Expense Ratio up ticked to 22.6% in H1/17 from 22.1% reported in H1/16 which was largely attributed to an increase in the depreciation charge from its new policy administration system. Its investment book reported an annualised total investment return of 0.7%, reflecting on-going low-return environment with increases in core bond yields driving modest unrealised mark to market losses of 0.3%. The increase in average premiums slowed to 5% year-on-year, after sizable gains seen between 2014 to 2016. Its financial services division contributed a profit of €1.8m compared to €0.5m in H1/16. The Group maintained its Solvency II position at 126% of its required amount. The Group introduced a new reinsurance programme to provide greater protection at lower cost. This new reinsurance policy should provide better cover in extreme events, while accepting more additional property risk.

Comment

On the claims environment, FBD's CEO, Fiona Muldoon said "we need urgent reforms to tackle injury claims pay-outs and to address the impact claims costs are having on the affordability of insurance for farmers, small businesses and consumers up and down the country. In the absence of reform all insurance customers will continue to pay the too-high cost of these awards through higher insurance premiums." FBD incurred net claims of €112m in the period compared to €120m incurred in H1/16. Management did say "the claims environment has stabilised somewhat during 2017 with claims inflation continuing to moderate from very high levels seen in 2014 and 2015, and it is still too early to assess the impact of the revised Book of Quantum introduced last year". Management welcomes the proposed strengthening of the powers of the Personal Injuries Assessment Board to enable claims settlement in a more efficient and expedient manner for all parties. In terms of outlook, management said "it is now evident that FBD has stabilised. The Group looks forward to developing on this success, targeting modest profitable growth and continued stabilisation in policy volumes in the second half of 2017". This was a strong update from the Group, and we maintain our Outperform outlook on the Group, although our target price remains under review.

Stephen Hall, CFA | Investment Analyst

Allianz - strong H2/17 update Closing Price - €186.50

News

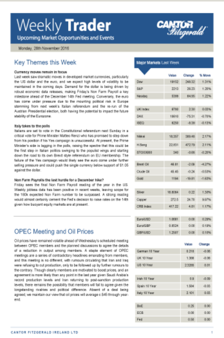
Following on from last Thursday's pre-release of H1/17 results, Allianz released official Q2/17 results this morning. Underlying profitability came in a €2bn, a 23% increase year-on-year, while revenues came in at €30bn. It reported an operating profit of €2.93bn. The Group said Q2/17 cost/income ratio within its asset management division fell to 62.5% while PIMCO saw €52bn of positive asset inflows during the quarter. It reported a Solvency II ratio of 219%.

Comment

Management remains committed to stripping out costs and automating its underwriting and claims handling divisions which should improve the Group's productivity and help protect margins from rising regulatory costs and pricing pressure. Allianz has pledged €1bn in productivity gains by 2018 to be achieved by automating function in policy underwriting and claims handling. The insurer spent 650 million euros in 2016 to digitalize its global business and plans to invest more than 750 million euros this year. The Group's Combined Operating Ratio, which is the insurance industry's key measure of operational performance fell to 93.7% in Q2/17 from 96.4% in Q2/16 and was helped by fewer claims associated from natural disasters. Management raised its full year 2017 operating profit guidance towards the upper end of its €10.3bn to €11.3bn range. Consensus operating profit forecasts currently stands at €10.9bn, meaning there is room for earnings upgrades on the back of this update this morning, which the market has reacted favourably to, opening 2% higher. Despite a very strong performance in its share price over the past 13 months (>50% gains), we see further upside for the Group in H2/17 within a rising yield environment in Europe. Despite this recent rally, Allianz only trades at 11.5x FY17e earnings. The stock also offers an attractive dividend yield of 4.3% for 2017.

Stephen Hall, CFA | 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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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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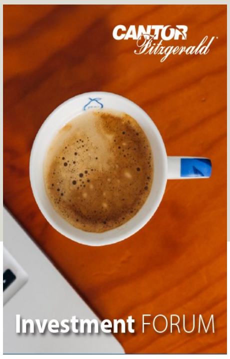

Investment Forum

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)

Allianz: Allianz, through it subsidiaries, provides insurance and financial services.
FBD: FBD Holdings plc is primarily involved in insurance underwriting

Historical Recommendation

Allianz: We have been positive on Core Portfolio stock, Allianz since 24/04/14 and no changes have been made to the recommendation since then
FBD: We moved FBD from Market Perform to Outperform on the 6th December 2016.

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