Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 11th August 2017

Morning Round Up

Flows – Europe Still Favoured

Data release by Bank of America yesterday showed that European equity funds had inflows of $1.1bn in the week ending August 9th. This means Europe has seen fresh inflows 19 of the past 20 weeks. US funds meanwhile saw outflows of $1.2bn which is the 8th straight week of redemptions. This means US funds now have net outflows of $144m for the year. So far this year Europe has had inflows of $32bn. Separately, EM continues to be in vogue with $1.9bn of inflows during the week. We have been guiding for European outperformance relative to the US since early 2017. This thesis has stuttered lately but with continuing flows into Europe, we believe Europe can still outperform in the H2/17. Likewise we would expect EM outperformance to continue into the second half of the year.

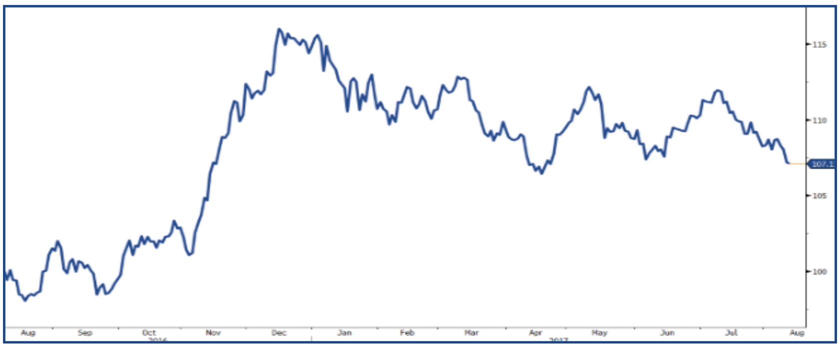
Metals – China Driving Prices

As we had guided in yesterday's Daily we did not believe that the rally in metal prices we have seen year to date was sustainable from a more long term perspective. A statement from Chinese authorities overnight would appear to back up that view. The China Iron & Steel Association said in a statement that prices for steel futures weren't driven by demand or supply reduction, but by "over-interpretation of even misinterpretation" with regards to capacity cuts, clean-ups of illegal production and environmental protection policies. The association warned that some traders drive up prices for their own profits by making exaggerated conclusions that steel prices will soar in the second half of 2017. Benchmark steel rebar fell 0.2% following the news. This has obvious implications for some of the large miners.

Trump - Toughens Stance on North Korea

Earlier in the week Donald Trump said the US would deploy "fire and fury like the world had never seen" in an effort to deter North Korea's recent threats. Yesterday, he stepped up his stance against North Korea saying his original threats weren't "tough enough". However, the US Secretary of State, Rex Tillerson tried to downplay the prospect of war. In response to Trump's comment, North Korea's state news agency, KCNA said the US "would suffer a shameful defeat and final doom if it persists in extreme military adventure, sanctions and pressure". Tensions between the US and North Korea have escalated in recent weeks as North Korea have conducted several missile tests, while the US and South Korea have also undertaken military exercises of their own. The President's tougher comments have sparked a global sell off in risk assets this week.

USD/YEN Price Chart



Source: Bloomberg, CF Research August 2017

Key Upcoming Events

24/08/17 Jackson Hole Symposium

Market View

Global risk asset opened lower once again this morning as tensions between the US and North Korea escalated. In a classic risk off move, global equity indices sold off, US Treasuries, gold, the Japanese Yen and Swiss Franc all caught a bid. USDJPY fell to its lowest level in 2 month to 109, while 10 year Treasury yields fell to 2.20%, and 10 year German yields fell to 0.40%. EURUSD is currently trading at $1.1750. Aside from developments between the US and North Korea today, key market focus will be on German, French, Spanish, Italian and US inflation data which will give bond markets direction.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21844	-204.69	-0.93%	10.53%
S&P	2438	-35.81	-1.45%	8.91%
Nasdaq	6217	-135.46	-2.13%	15.49%
Nikkei	19,730	-8.97	-0.05%	3.22%
Hang Seng	26,914	-530.26	-1.93%	22.33%
Brent Oil	51.63	-0.27	-0.52%	-9.13%
WTI Oil	48.34	-0.25	-0.51%	-10.01%
Gold	1285	-1.13	-0.09%	12.02%
€/$	1.1755	-0.0017	-0.14%	11.77%
€/£	0.9058	-0.0014	-0.16%	6.12%
£/$	1.2979	0.0002	0.02%	5.18%

	Yield	Change
German 10 Year	0.40%	-0.012%
UK 10 Year	1.07%	-0.012%
US 10 Year	2.20%	0.007%
Irish 10 Year	0.73%	-0.016%
Spain 10 Year	1.45%	-0.013%
Italy 10 Year	2.02%	-0.015%

Source: Bloomberg, CF Research August 2017

Facebook - New Watch tab likely to drive revenue higher Closing Price - $167.40

News

Facebook broke the news yesterday that it will introduce a new video hub on its social network that offer users episodic content from partners including A&E, Major League Baseball and National Geographic, in a bid to capture more online advertising dollars. The new section, called Watch, is meant to increase the amount of time users spend watching video on the platform. Shows can then be commented on, discussed, share on users' individual news feeds and groups. The tab will automatically organise shows by what is most talked about, what the user is following and what their friends are watching. This move is part of an overall trend of internet giants slowly creeping into TV content that was previously the domain of the large US and European cable networks.

Comment

This is a very positive catalyst for Facebook. The ability to watch shows that you can then share with friends, watch content that your friends are watching and also view shows that the FB community rate highly should incentivise content producers to consider FB as a platform for which they would like to produce. Secondly, it allows companies who wish to advertise to rank content much easier than in TV format which should allow FB to charge appropriate scaled advertising fees. Overall it should increase the amount of time users spend on the platform which ultimately drives advertising revenue. Users will be more likely to watch content on FB if they can see what their friends are watching also. FB intends to for the publishers to make money by splitting revenue from ads placed in the videos or creating videos with advertisers from the start. US Tech stocks have been volatile of late, driven by the North Korean saga. FB is now 16% away from its consensus price target of $193.59. These are levels we are comfortable buying in with but we expect the North Korean debacle to rumble on for a few more weeks. The Tech sector is likely to continue to lead any sell-off. We would recommend clients hold off from buying higher beta Tech names in the immediate short term. However, with a view on the longer term, we believe Facebook, along with Alphabet, will continue to retain the lion's share of the online advertising market and will undoubtedly be helped by the new Watch tab. We maintain our Outperform.

Will Heffernan | Investment Analyst

Snap Inc - Disappointing Q2/17 results - Avoid buying on weakness Closing Price - $13.77

News

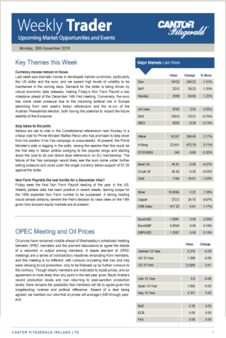
Snap reported disappointing Q2/17 results overnight on three fronts. Firstly, losses came in at $443m which were greater than consensus expectations. Daily Active Users (DAU) only grew to 173 million, which was behind analyst's expectations of 175 million. Finally, management was cautious for 3rd quarter advertising revenues. Key focus for this set of results was the pace of user growth which has slow substantially in recent quarters, despite being a relatively young company. The company grew revenues only 21% QoQ to $181m, which was below analyst's expectations of $185m. Analysts had also lowered revenue projections the lead up to the results being released. Its share price sold off 18% after hours, and is now trading roughly 60% below all-time highs and 33% its IPO price of $17.

Comment

Clearly the big worry for Snap is slowing user growth as a result of its biggest competitor Facebook eating its lunch. Instagram, which is owned by Facebook has been very successful is replicating Snapchat's Stories through its own disappearing video feature, Instagram Stories. Instagram already has 250 million DAU using its Stories feature and is expected to reach 300 DAU this quarter. The cash burn in Snap is still staggeringly high with the company losing $443m on just $181m of total revenue generated in the period. Snap's CEO, Evan Spiegel on the analyst call said analysts were focusing on the wrong metric and should be looking at the time users spend in its platform and Average Revenue Per User (AVPU) rather than the number of DAU. However, the simple equation for ad dollars generated is DAU * ARPU, and if DAU is slowing then the trajectory for revenue growth slows too. Despite the significant selloff in the company's share price of late, we would continue to advise clients not to buy the dip, as we expect Instagram Stories to gain further traction at a quicker pace than Snapchat, and the fact the company's negative cash burn is still huge. The stock still trades at 12.4x EV/Sales, a premium to Facebook at 11.5x and a significant premium to Twitter at 4x. Therefore, we could see further de-rating in the stock over time. Snap Co-Founders said they would not sell any stocks this year, and the next lock up period finishes at the end of August which could put further pressure on the Group.

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

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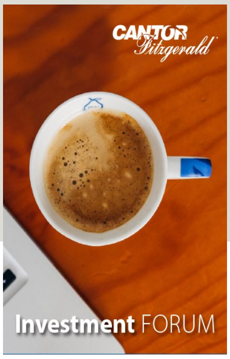

Investment Forum

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

Click here

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Facebook: Facebook Inc. operates a social networking site.

Snap: Is the parent company of the popular social media app, Snapchat which generates revenues through advertisements.

Historical Recommendation

Facebook: We have been positive on the outlook for Facebook, and it was added to the core portfolio on the 11/05/2015 and no changes to our recommendation have been since.

Snap: We have maintain an Underperform rating since Snap's IPO on the 02/03/2017.

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