Daily Note

Views, news and topics from today's markets

Friday, 29th September 2017

Morning Round Up

Haldane comments on BOE rate hike

Bank of England's chief economist Andy Haldane on Thursday insisted that an interest-rate increase should be considered good news for the UK, rather than something to fear. Haldane said he is among the majority of policy makers who believe that the economy is "nearing the point" where a reduction in some stimulus might be warranted. The BOE's base rate is at a record-low 0.25% and an increase would be the first by the bank in more than a decade. Haldane's comments are the latest signal that the BOE is moving very close to tightening, Governor Mark Carney and policy maker Gertjan Vlieghe have also said they see a rate increase in the coming months. The hawkish shift at the BOE's September meeting saw investors dramatically reprice their expectations for higher interest rates by November. On pay growth, which has been stubbornly sluggish even with unemployment at a four-decade low, Haldane said the signs have become more "encouraging."

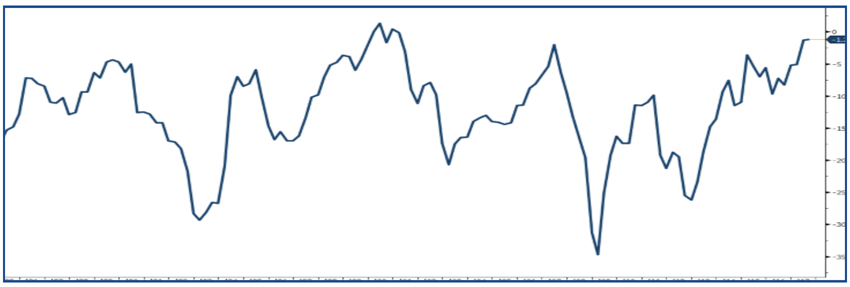
Trumps tax plan may only cause a short spike in jobs

President Donald Trump's plan to slash the corporate tax rate may not provide the sustained job growth that he and Republican leaders want, some economists have suggested. Republicans propose to temporarily turbocharge the tax savings corporations can get when they spend heavily on major items like new equipment. Letting companies immediately deduct the full cost of such purchases from their taxable income. This would help spur more purchasing, more growth and more hiring. Though some spectators wonder if there is a burst of growth it may only be a short spike and could then peter out. Trump and the GOP have promised growth that's far more robust. Trump's "revolutionary change" in business taxes must has one barometer of success that being, jobs. Only time will tell, but it is worth noting that a short term economic jolt may benefit the Republicans, as congressional elections are in November of next year.

Economic confidence in the euro-area on the up

Euro-area economic confidence ticked up more than economists forecast in September. The European Commission in Brussels released figures on Thursday showing Eurozone consumer sentiment had increased to its highest reading in a decade. The Commission's report showed an improvement in sentiment on the back of higher industry, retail trade and construction confidence. A separate business climate indicator rose to its highest since April 2011. However in contrast to collective confidence results, in Germany, business confidence unexpectedly slid for a second month in September. While that's a sign that Europe's largest economy is struggling to improve on its pace of expansion, data on Wednesday showed Italian executives are the most optimistic they've been in a decade.

Eurozone consumer confidence - chart



Source: Bloomberg, CF Research September 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

We enter the last trading day of the third quarter of 2017 and sentiment towards European equities remains high, as economic data remains resilient with Eurozone consumer sentiment data coming in at 10 year highs yesterday, and with EURUSD continuing to reverse. The USD remains bid helped by speculation of a US tax reform bill and more hawkish comments from the Fed of late. Sentiment towards the Pound improved further as Chief EU Negotiator, Michael Barnier praised Theresa May after the softer tone to her speech last Friday, and added "she has injected a new dynamic into the exit negotiations". Key market focus today will be Eurozone inflation data which could give the Euro direction, and will be a key reading ahead of the next ECB meeting on the 26th October, where the market is expecting the ECB to announce the start of its tapering plan.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22381	40.49	0.18%	13.25%
S&P	2510	3.02	0.12%	12.11%
Nasdaq	6453	0.19	0.00%	19.88%
Nikkei	20,356	-6.83	-0.03%	6.50%
Hang Seng	27,527	105.12	0.38%	25.12%
Brent Oil	57.42	0.01	0.02%	1.06%
WTI Oil	51.37	-0.19	-0.37%	-4.37%
Gold	1286	-1.10	-0.09%	12.09%
€/$	1.1792	0.0006	0.05%	12.12%
€/£	0.8798	0.0029	0.33%	3.07%
£/$	1.3404	-0.0038	-0.28%	8.62%

	Yield	Change
German 10 Year	0.48%	-0.001%
UK 10 Year	1.37%	-0.005%
US 10 Year	2.32%	0.009%
Irish 10 Year	0.76%	0.000%
Spain 10 Year	1.63%	0.004%
Italy 10 Year	2.12%	0.000%

Source: Bloomberg, CF Research September 2017

Ryanair - Possible legal action from CAA weighs on stock Closing Price - €16.435

News

On Wednesday, Ryanair released a statement in an attempt to draw a line under the recent flight cancellation fiasco which has generated significant negative press for the airline over the past 2 weeks. The key takeaway from this statement was that Ryanair will take 25 aircrafts out of its winter schedule between November 2017 to March 2018. This will effect an additional 400k passengers during this period who were notified on Wednesday and will be offered a refund or the option to rescheduled to another route. Cancelling these 25 aircrafts will unlock 100 pilots on standby, removing the risk of pilots shortages again in the near future. In an effort to boost brand reputation, it is giving all 315,000 passengers recently affected by the roster error a €40 Ryanair travel voucher. This show of goodwill will cost the airline less that €25m. All of the original 315,00 passengers affected have been contacted and offered re-accommodation or full refunds and their applicable EU261 compensation entitlements by now.

Ryanair has committed to low fares over the coming months to improve brand reputation. As a result of the additional flight cancellations, Ryanair will only grow passenger numbers by 4% in the winter period rather than the 9% previously anticipated. Ryanair now forecasts to carry 129 million passengers in FY18, lower than the original forecast of 131 million. In FY19, it anticipates it will carry 138 million passengers, lower than the original 142 million originally forecast. Ryanair said the slower passenger growth this winter will provide stability to pilot rosters from November to March, and pilots will not need to give up one week of their annual leave.

Captains and First Officers based in Dublin, Stansted, Berlin and Frankfurt have been given a €10k and €5k pay rise respectively. Many other bases are looking to hold pay talks with Ryanair in the immediate future. Focusing on the longer term, Ryanair will have to hire more pilots and increase pilots pay, however these cost increases shouldn't impact profitability in management's opinion. Ryanair is due to take delivery of 50 planes between now and May 2018 and will hire an additional 650 pilots as it takes deliver of these aircrafts, meaning the airline shouldn't have a pilot shortage issue. In order to focus on repairing its rostering problem this winter, Ryanair will eliminate all management distractions starting with its interest in Alitalia. Ryanair has notified Alitalia bankruptcy Commissioners that it will not be pursuing its interest in the insolvent airline or submitting any further bids for the airline. Ryanair's management has kept its full year guidance at €1.4bn to €1.45bn.

However, yesterday morning, Britain's Civil Aviation Authority (CAA) accused Ryanair of "persistently misleading passengers" and said it could face legal action. The U.K. regulator said Ryanair had repeatedly failed to inform customers about all the expenses they could reclaim in connection with the flight changes. This raises the likelihood of further costs associated with the pilot rostering error. Ryanair responded by saying "it will be meeting the CAA and will comply fully with whatever requirements they ask us to". These comments from the CAA dented investor sentiment in the stock once again, and raises the prospects of a compensation bill greater than €50m. This statement unwound all of the gains in Ryanair's share price seen on Wednesday.

Comment

Management clearly tried to kitchen sink this situation on Wednesday. However, yesterday warning from the CAA shows this issue looks set to drag on in the media. The airline's cost base will undoubtedly increase in the future as it has been brought to light that the airline has been running its operations on too tight margins for errors. Ultimately, it still has a significant cost advantage over peers, which means it has a competitive advantage on air fares which should enable it to capture market share from competitors. The stock should gradually re-rate higher in our opinion if the negative media attention eventually dissipates over the next couple of weeks.

Stephen Hall, CFA | Investment Analyst

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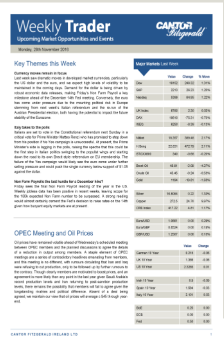

Weekly Trader

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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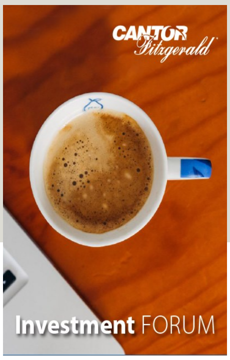

Investment Forum

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)

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

Historical Recommendation

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

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