Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Thursday, 28th September 2017

Morning Round Up

Trump trade re-emerges

The market has been anticipating Trump's tax cuts this week and there is a re-emergence of a Trump trade, buying stocks seen benefiting the most from the president's promised tax cuts. A Goldman Sach's basket of the most-taxed companies climbed 0.4% Tuesday while S&P 500 was flat. Investors had been disappointed before. The Goldman high-tax basket rallied with gains double the market in the first month post-election, only to see the outperformance erased as a Republican effort to overhaul health-care failed and controversies surrounding Trump escalated. However optimists see a promising omen in an unrelated deal that Trump worked out with Democrats earlier this month.

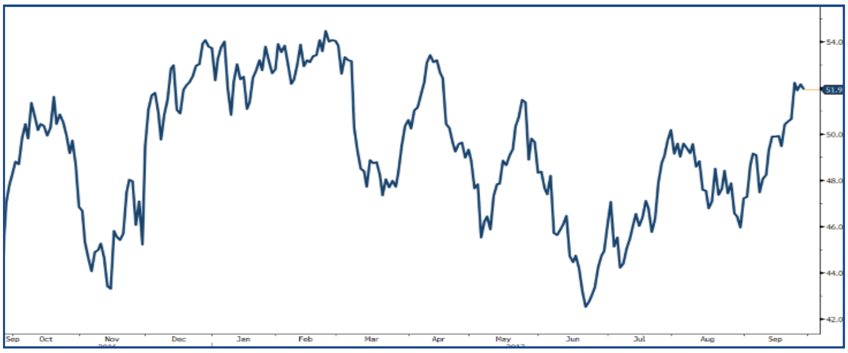
DPRK and US tensions remain high

Tensions remain high between North Korea and the US. National Security Adviser H.R. McMaster told press this week that the US military has gamed different scenarios for how the crisis will be resolved. He also advised that the threat from Pyongyang is further advanced than anticipated. US Officials also dismissed North Korean Foreign Minister Ri Yong Ho's comment that President Donald Trump's warnings to Pyongyang at the United Nations amounted to a declaration of war. "We've not declared war on North Korea," White House spokeswoman Sarah Sanders said Monday. Ri escalated tensions on Monday in New York when he implied that North Korea would be within its rights to shoot down U.S. warplanes flying in international airspace. The context to these comments being that they came just days after the Pentagon sent military jets north into the demilitarised zone. Ri, responding from the UN podium last week, said: "The very reason the DPRK had to possess nuclear weapons is because of the U.S." which perhaps relates to the 2010 declassified documents from 1969 when President Richard Nixon considered tactical nuclear strikes on North Korea.

Oil enters bull market

As a result of US industry data showing an unexpected decline in crude stockpiles, oil traded near $52 after entering a bull market. Forecasts for rising demand, the return of U.S. Gulf Coast refiners following Harvey and Turkey's threat to halt Kurdistan's crude shipments were the main catalysts to push oil into a bull market this week. Last week OPEC and Russia congratulated themselves on successfully eroding of surplus global stockpiles; Russia signalled it would be willing to prolong the curbs further, while the group said it was too early to make a recommendation to extend the deal.

Oil - price chart



Source: Bloomberg, CF Research September 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

The Bloomberg Dollar Index gained for the 3rd day in a row as the Trump tax reform announcement buoyed US markets. Equities gained as it was well received by markets. This is just the first step of a long process to see if it can actually be implemented. Sterling continued to gain as comments from the BOE's Chief Economist Andy Haldane reinforced the possibility of a rate hike in November. The probability of this now stands at 80%. Elsewhere, iron ore dropped 5.1% as speculation grew of increased supply with a slowdown in Chinese demand. Mining companies were weak as a result. European stocks continue to outperform as the euro weakens. Market focus today will be on regional inflation data from Germany and numerous central bankers speeches including Mark Carney in London.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22341	56.39	0.25%	13.05%
S&P	2507	10.20	0.41%	11.98%
Nasdaq	6453	73.10	1.15%	19.88%
Nikkei	20,363	96.06	0.47%	6.53%
Hang Seng	27,547	-95.08	-0.34%	25.21%
Brent Oil	57.55	-0.35	-0.60%	1.28%
WTI Oil	51.93	-0.21	-0.40%	-3.33%
Gold	1280	-2.43	-0.19%	11.58%
€/$	1.1747	0.0002	0.02%	11.70%
€/£	0.8779	0.0006	0.07%	2.86%
£/$	1.338	-0.0007	-0.05%	8.43%

	Yield	Change
German 10 Year	0.51%	0.042%
UK 10 Year	1.42%	0.039%
US 10 Year	2.35%	0.041%
Irish 10 Year	0.81%	0.035%
Spain 10 Year	1.67%	0.028%
Italy 10 Year	2.18%	0.030%

Source: Bloomberg, CF Research September 2017

Bank of Ireland - Lagging in a rising yield environment Closing Price - €6.825

News

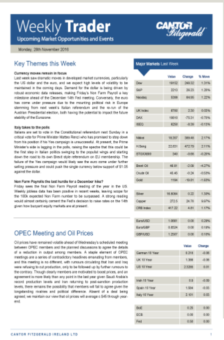
We are surprised by the recent underperformance in Bank of Ireland's share price of late relative to its closest peer AIB and the broader European Banking Index (SX7P Index), and feel this underperformance should unwind over the coming weeks. The macro economic backdrop for Irish banks is underpinned by a strongly performing Irish economy, and improving credit metrics. We are generally constructive and overweight European financials into 2017 year-end and beyond, as we feel the improving economic fundamentals in Europe should lead to a gradual tightening in monetary policy conditions from the ECB which should lift European bond yields. 10 year German yields have recovered to 0.51% this morning as the market begins to price in expectations of the beginning of the ECB's tapering to its QE programme at its next council meeting in October.

Comment

Bank of Ireland currently trades at 0.81x FY17e Price/ Book which is a steep 16% discount to the broader European Banking Index which trades at 0.97x. Before Brexit, BOI had historically traded at a valuation premium to the broader banking index, and we feel the current valuation discount is too steep at present and should narrow overtime. BOI successfully issued two separate subordinated bonds recently under its newly established holding company Bank of Ireland Group under MREL (minimum requirements for own funds and eligible liabilities) requirements set by the European Central Bank, highlighting investor demand for the Group's credit securities is very strong underpinned by strong underlying fundamentals of the bank and an Irish economy firing on all cylinders. BOI's share price has failed to benefit from a re-strengthening in the Pound which has seen EURGBP move from 93p roughly a month ago to 87.8p this morning. This has historically been supportive of BOI's share price. Similarly its share price hasn't benefitted from the recent uptick in Germany bond yields. AIB's recent SVR rate cut has potentially dented sentiment in the stock as some investors assume BOI may have to counter with a similar rate cut in order to protect market share of new mortgage lending in Irish which is an attractive growth opportunity for all Irish banks over a multiyear horizon. However, BOI continues to defend its fixed rate strategy which gives greater certainty to both the customer and the bank. BOI has a healthy capital position, and has the strongest asset quality of any Irish bank which is set to steadily improve over the next several years. It is due to reinstate dividend payments early in 2018 relating to the current 2017 financial year, which would be its first dividend payment since 2008, meaning it should attract interest from yields seeking investors. BOI is currently sitting above first key support at €6.66, and we continue to target €8.16, which offers 22.5% potential upside if achieved.

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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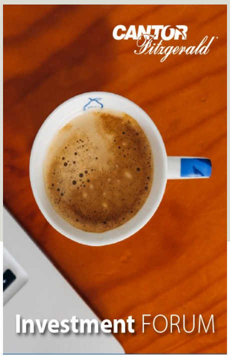

Investment Forum

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

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Bank of Ireland: Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom

Historical Recommendation

Bank of Ireland: We have reinstated an outperform rating on Bank of Ireland as of 13/07/2016

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