

Thursday, 19th October 2017

Morning Round Up

China's President XI opens twice-a-decade party gathering

President Xi Jinping warned of "severe" challenges while laying out a road map to turn China into a leading global power by 2050, in a three hour speech that opened the Communist Party gathering yesterday. In his speech Xi declared victory over "many difficult, long overdue problems" since he took power in 2012. He said China would continue opening its doors to foreign businesses, defend against systemic risks, deepen state-run enterprise reform, strengthen financial sector regulation and better coordinate fiscal and monetary policy. Xi Called for a strong military but also affirmed that China would not seek global hegemony. The speech envisaged an expanding middle class, a moderately prosperous society and emphasised that China shouldn't copy the political systems of foreign nations, repeatedly emphasizing that the country had entered a "new era of socialism with Chinese characteristics."

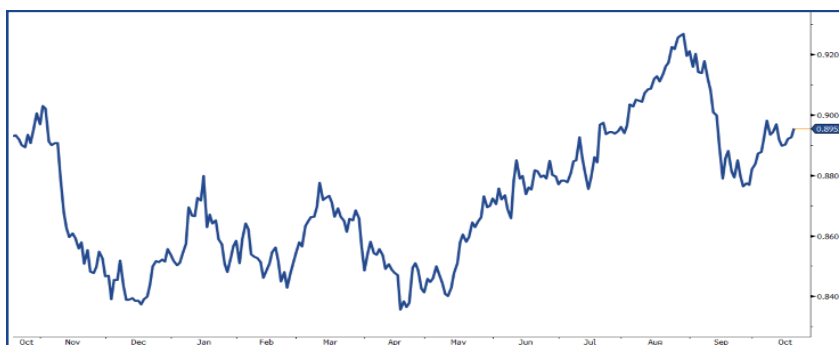
UK employment statistics

The UK jobless rate held at a 42-year low in the three months through August as Britain enjoyed near-record employment, according the figures published Wednesday by the National Statistics Office. Wage growth was little changed at just over 2%. There were negatives to the numbers under the surface, the rise in employment was half that seen in the period through July, and much of it came from self-employment, which tends to be lower paid and less secure than salaried work. There were also increases in long-term unemployment and the number of part-time workers unable to find a full-time job. In evidence to lawmakers on Tuesday, BOE Governor Mark Carney again affirmed that a rate increase would probably be needed in the "coming months;". With the labour market tight and Brexit curbing immigration, boosting growth without generating inflation may require a significant improvement in productivity, something considered unlikely given recent performance and the dampening effect leaving the European Union is having on investment.

Investment management workforce will change after Brexit

The CFA Society UK has published the findings of a Brexit survey conducted on its members and they reveal that London's asset managers may lose their investment talent to the continent and other markets once Britain leaves the European Union. 42% of their members who are EU nationals and not from the UK that were polled said they plan to continue working in the UK after Brexit, 16% said they were already planning on leaving. Over 90% of EU respondents said the competitiveness of the UK as a financial core had deteriorated since last year's referendum. .

EURGBP - price chart



Source: Bloomberg, CF Research October 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

Asian markets were down overnight as good Chinese data did not lift investor sentiment. Spanish assets will remain in focus today as the deadline for Catalan independence declaration is today at 10am. Separately, Theresa May meets European leaders tonight in a Brexit showdown at which she hopes to force the issue of trade talks. The euro advanced against all major currencies ahead of the Spanish deadline. In the US, media speculation is that Donald Trump will announce his nomination for Fed Chair by November 3rd, a choice that will impact US rates and the dollar. UK retail sales data is out today which should give some indications as to the pressure the UK consumer may be feeling.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23158	160.16	0.70%	17.18%
S&P	2561	1.90	0.07%	14.40%
Nasdaq	6624	0.56	0.01%	23.06%

Nikkei	21,449	85.47	0.40%	12.21%
Hang Seng	28,284	-428.04	-1.49%	28.56%

Brent Oil	57.97	-0.18	-0.31%	2.02%
WTI Oil	51.88	-0.16	-0.31%	-3.43%
Gold	1282	1.34	0.10%	11.76%

€/\$	1.1807	0.0020	0.17%	12.27%
€/£	0.8956	0.0029	0.33%	4.92%
£/\$	1.3184	-0.0021	-0.16%	6.84%

	Yield	Change
German 10 Year	0.39%	-0.010%
UK 10 Year	1.30%	-0.019%
US 10 Year	2.33%	-0.013%

Irish 10 Year	0.62%	-0.013%
Spain 10 Year	1.61%	-0.009%
Italy 10 Year	2.03%	-0.007%

Source: Bloomberg, CF Research October 2017

SAP - Small misses but cause for optimism

Closing Price - €95.01

News

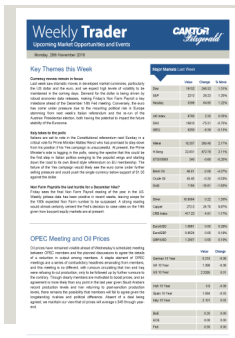
SAP released Q3 results this morning that were a mixed bag including some misses but upgraded guidance from management. Q3 sales came in at €5.6bn, up 4% but a slight miss on consensus estimates of €5.68bn. Operating profit of €1.64bn also missed Street estimates of €1.66bn. EPS was €0.82 which beat estimates of €0.692. Revenue and EBIT were also slightly below consensus due to a stronger euro which shaved about 4% off total revenue. From a positive perspective, management upgrades its 2017 sales forecast range to €23.4 - €23.8bn, an increase of €100m from its previous forecast. Management also raised its forecasts for operating profit and cloud & software revenue slightly.

Comment

These results were mixed from SAP and the share price has traded down this morning. The misses are obviously not good but there was enough in the release to be positive about. The upgraded guidance bodes well for the future and margin decline continues to ease. Underlying business trends are robust with CEO Bill McDermott "We see growth in every corner of the business, which is why we are again raising our guidance for full year". S4/Hana, its accounting, manufacturing and logistics software, showed good momentum added 600 customers in Q3 to more than 6,900 users. Its cloud based products and services, which SAP is heavily investing in, also had decent growth with revenue of €938m. SAP has completed about half of its €500m buyback program with the rest expected to complete over the next 2 quarters. Despite these slight misses we maintain our Outperform. The product cycle continues to have good momentum, as illustrated by the upgraded guidance and margin decline appears to be basing. There may be room for margin expansion from 2018 onwards. It faces serious competition from Amazon, Google and Microsoft when it comes to growing its cloud computing business. But we believe SAP can leverage of existing legacy technology and customer relationships to drive this growth.

[Will Heffernan | Investment Analyst](#)

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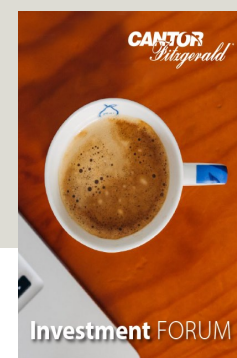
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

SAP: SAP is a German software company whose products allow businesses to track customer and business interaction.

Historical Recommendation:

SAP: We have changed our outlook on SAP to "Outperform" from "Market Perform" as of 20/07/2017

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