

Wednesday, 4th October 2017

Morning Round Up

ECB to set new provision standards for bad loans

The European Central Bank will hold lenders to tough new provisioning standards on bad loans next year, part of efforts to tackle a problem that weighs heavily on many euro- area banks. Lenders will have to provision against the whole of the potential loss on unsecured nonperforming loans, which aren't backed by collateral, after two years, according to a draft of guidance to be published on Wednesday. Losses on secured loans that have defaulted will have to be fully covered after seven years. The ECB is trying to clear up piles of nonperforming loans on the balance sheets of lenders in some of the jurisdictions it covers, the result of recession and mismanagement at lenders.

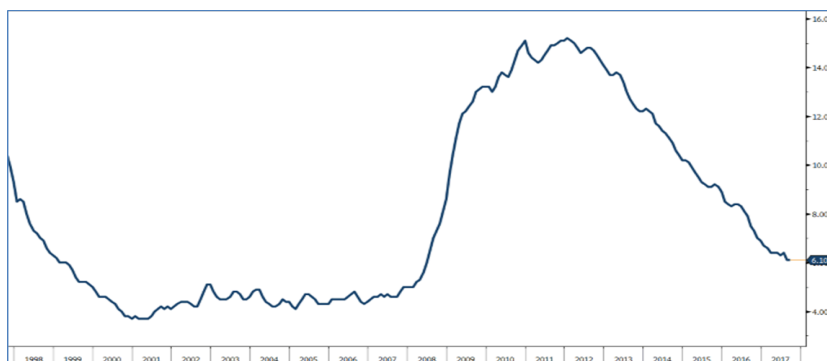
U.K. Is Said to Fear No Brexit Deal as EU Stalls on Trade

British Prime Minister Theresa May's government is growing increasingly concerned that it could crash out of the European Union without a trade deal as the two sides blame each other for slow progress of talks. The bloc's refusal to discuss a post-Brexit trade pact until it's satisfied with the terms of the divorce is stoking fears in the U.K. team that time will run out, according to officials speaking on condition of anonymity. Brexit Secretary David Davis said on Tuesday he is still aiming for a good deal, but warned the country must be prepared if negotiations fail, and work is being done in London to prepare for that eventuality. Leaving the EU without a deal would be catastrophic for business, throwing into legal limbo industries from financial markets to air travel and pharmaceuticals. Trading terms would revert after decades to World Trade Organization tariffs, and trucks could pile up at ports awaiting customs checks.

Irish unemployment rate drops to lowest level in 9 years

The latest employment statistics from the Irish CSO shows Irish unemployment rate fell to 6.1% in September 2017, its lowest level in 9 years, a new post crisis low. The number of unemployed in Ireland currently stands at 133,200, a drop of 31,600 in the past year. Ireland unemployment rate peaked at 15.2% in 2012 and is now a full three percentage points below the European average of 9.1%. If current trends persist, Ireland's unemployment rate could dip below 6% before the end of 2017. The ESRI said Ireland runs the risk of overheating if this growth continues. Employment rose in 11 of the 14 economic sectors on an annual basis in Q2/17. This strong employment performance is a primary reason for our overweight exposure to Irish banking stocks within our Core Portfolio.

20 year chart of Irish unemployment



Source: Bloomberg, CF Research October 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

European equities continued their steady move higher this morning with the DAX Index retesting new all time highs at the open. Strong underlying economic fundamentals and a softening of the Euro has helped European exporters outperform despite the likelihood that the ECB announces the beginning of tapering at its next meeting at the end of the month. 10 year German bond yields have edged lower this week follow increased political risks stemming from Spain. Oil prices have also retraced from highs of 2017 due to a period of profit taking and a strengthening in the US Dollar. Key market focus today is Eurozone, Germany, French, UK, and US Services PMIs data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22642	84.07	0.37%	14.57%
S&P	2535	5.46	0.22%	13.21%
Nasdaq	6532	15.00	0.23%	21.34%

Nikkei	20,627	12.59	0.06%	7.91%
Hang Seng	28,368	194.48	0.69%	28.94%

Brent Oil	55.69	-0.31	-0.55%	-1.99%
WTI Oil	50.24	-0.18	-0.36%	-6.48%
Gold	1276	4.35	0.34%	11.20%

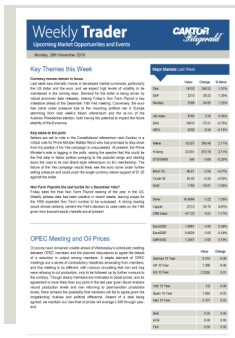
€/\$	1.1758	0.0014	0.12%	11.80%
€/£	0.8871	-0.0001	-0.01%	3.93%
£/\$	1.3255	0.0018	0.14%	7.41%

	Yield	Change
German 10 Year	0.43%	-0.025%
UK 10 Year	1.34%	-0.011%
US 10 Year	2.31%	-0.009%

Irish 10 Year	0.71%	-0.01%
Spain 10 Year	1.78%	0.06%
Italy 10 Year	2.18%	0.02%

Source: Bloomberg, CF Research October 2017

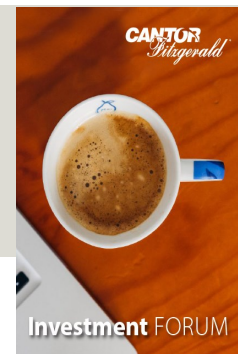
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