Daily Note

Views, news and topics from today's markets

Wednesday 13th December 2017

Morning Round Up

Yellen's Last Hurrah

Today's Fed press conference following the two day Fed meeting marks Mrs Yellen's final press conference as governor. Markets are expecting a quarter point rate hike which at this stage is fully priced in. Focus will be on whether or not there are any dissenters and any indication of 2018 guidance. Currently, the Fed dot plot, the Fed's expectations of rate hikes, is showing three hikes in 2018. Market futures are implying 1.5 - 2 hikes. Some very notable houses, including Goldman Sachs, are predicting four. With growth surpassing the 3% level over the last 2 quarters and US tax reform expected to pass, analysts will be wondering whether or not the Fed takes a more hawkish turn. Ms Yellen is likely to be quizzed on what she thinks the impact of US tax reform is likely to be and does it change the Fed plans.

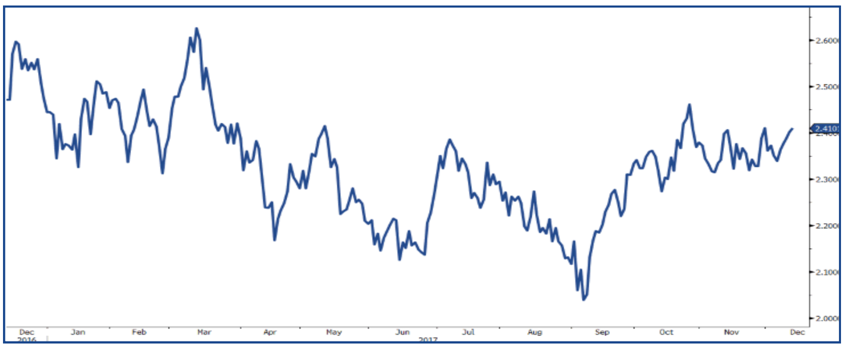
Italian Election Date Set

Media reports this morning indicated that Italy has settled on March 4th to hold a general election, in what will be the next big test for the European Union. The election was due to occur at some time between March and May. Based on current polls, the anti-establishment 5 Star Movement retains a slight lead over the more centrist PD. However, it is too close to call at this stage with a possible centre-right coalition between Forza Italia and the anti-euro Northern League also performing well. Forza Italia have been resurgent of late, lead by Silvio Berlusconi, who's recent re-emergence into Italian political life has shaken things up. Right now the polls indicate that whoever wins will struggle to clinch a majority of seats which ultimately could lead to a hung parliament. This election is likely to have an impact on European equity performance in 2018.

Tax Reform Scepticism

As US tax reform currently goes back and for the between the Senate and the House, analysts are now turning to the impact of the bill, with many expressing doubts over its ability to transform an economy that is already running close to full employment. Longer term it is sure to have a serious impact on the deficit which ultimately will be negative for government spending and the US dollar. It arguably leaves longer term challenges such as higher inequality levels, poor educational standards, slower labour force growth and declining demographics unanswered. The majority of analysts expect there to be 0.3% boost to GDP in 2018 and 2019 but for the effect to flatten off with no visible uplift from 2020 on. Critics of the bill have argued it is very skewed to the richest in society and will have little discernible impact on the spending power of the average US worker.

US 10 Year Yield



Source: Bloomberg, CF Research December 2017

Key Upcoming Events

12/12/2017 Federal Reserve Board Meeting

14/12/2017 ECB Council Meeting

21/12/2017 US Quarterly GDP

Market View

Asian markets sold off yesterday as news of the Republican defeat in the Alabama Senate race further impinges on the White House's ability to implement its agenda. The dollar also came off as a result. Today marks the start of several days of significant central bank action with the Fed meeting today followed by BOE, SNB and ECB meetings tomorrow. Analysts will be mostly focusing on each respective bank's guidance for 2018 policy and changes or upgrades in guidance.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24505	118.77	0.49%	24.00%
S&P	2664	4.12	0.15%	19.00%
Nasdaq	6862	-12.76	-0.19%	27.48%
Nikkei	22,758	-108.10	-0.47%	19.06%
Hang Seng	29,222	428.22	1.49%	32.82%
Brent Oil	64.31	0.97	1.53%	13.18%
WTI Oil	57.65	0.51	0.89%	7.32%
Gold	1241	-3.04	-0.24%	8.19%
€/$	1.1745	0.0003	0.03%	11.68%
€/£	0.8802	-0.0014	-0.16%	3.13%
£/$	1.3343	0.0025	0.19%	8.13%

	Yield	Change
German 10 Year	0.32%	0.008%
UK 10 Year	1.23%	0.002%
US 10 Year	2.41%	0.007%
Irish 10 Year	0.54%	0.020%
Spain 10 Year	1.49%	0.027%
Italy 10 Year	1.75%	0.045%

Source: Bloomberg, CF Research December 2017

Inditex - Welcome return to double digit growth

Closing Price - €5.55

News

Inditex released Q3 results that were in line with expectations but point to better times ahead. Sales rose 6% in Q3 to €6.3bn euros, in line with expectations and bringing total year sales to €17.96bn, 10% higher than the equivalent nine month period in 2016. Gross profit for the 9 months came in at €10.3bn, again in line with expectations. Gross margin was 57.4%. EBIT was €2.99bn, 6% higher than the previous year and in line with market expectations. It should be noted that estimates have been revised down following Q2 results and the larger than expected impact of currency headwinds. The major positive from the release was that store and online sales were up 13% in Q4 to date on a constant currency basis, bringing it back in line with the double digit growth that Inditex is renowned for.

Comment

Prior to Q2 this year, Inditex had had 10 consecutive quarters of double digit sales and EBITDA growth. However, from Q2 onwards performance has been weak, driven by Euro strength against most major and EM currencies. The return to double digit sales growth is very welcome and gross margin at 57.4% is well above any of its peers. On the call, management stated that the currency impact over the first nine months is around 1%. It maintained previous guidance for FX impact for the whole of 2017 to be approx. minus 1-1.5%. Management gave no guidance for expectation of currency headwinds into 2018.

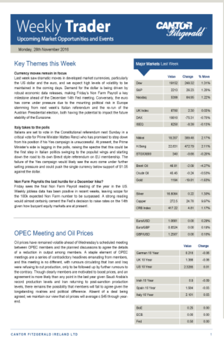
Online growth continues to power ahead unlike a lot Inditex's other bricks and mortar peers, with online sales not dilutive to overall sales or margin. Zara online was recently launched in India, a high growth, high margin market. This now means Inditex online now has a presence in all of South East Asia, having launched in 8 markets this year. This fully integrated platform that combines both stories and online in a truly harmonious way should continue to see above average organic growth driven by the secular shift to online shopping.

Management on the call also stated the RFID rollout continues across all concepts. It was implemented in all Zara stores at the end of 2016 and should be fully rolled out in Massimo Dutti and Uterque by the end of 2018. It also stated that it is expecting to have RFID fully implemented in all of its stores across all the concepts over the next two to three years. This should drive further margin appreciation, greater cost efficiency and accelerate online growth.

Management will give more guidance on FX expectations at full year results in March next year. However, in the interim the return to double digit sales growth is welcome and the stock traded up 4% at market open. As we move into 2018 the major factor that will determine Inditex's share price performance is where the Euro goes from here.

Will Heffernan | 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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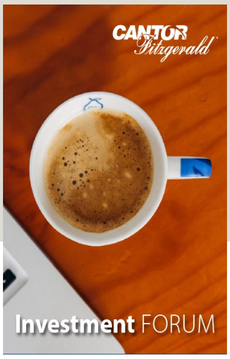

Investment Forum

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)

Inditex: Industria de Diseno Textil, S.A. designs, manufactures and distributes apparel. The company operates retail chains in Europe, the Americas, Asia and Africa.

Historical Recommendation:

Inditex: We have initiated coverage of Inditex with an Outperform rating, as of 23/01/2016

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