Daily Note

Views, news and topics from today's markets

Thursday, 11th January 2018

Morning Round Up

US Treasuries Whipsaw

It has been an interesting few days for US treasuries. The early part of the week saw the US 10 year yield spike from 2.46% to 2.56% as news broke that the BOJ, one of the few remaining central banks that is steadfastly dovish, trimmed purchases of 10-25 year debt, the first reduction since December 2016. Generally speaking this would not be news. However, it comes in the wake of BOJ Governor Kuroda recently referencing the difficulties of maintaining a low rate environment. We have been guiding for a higher rates in our 2018 Outlook but for yields to move higher in a gradual manner. If the BOJ eases back on bond purchases that could shift the gears considerably. Overnight Chinese officials released a statement saying that news reports that they were considering reducing their buying of US Treasuries may be wrong. The report had caused yields to spike but the denial moved the US ten year yield back down to 2.52%. Overall it has been a interesting start to the year for bond markets and it bears watching over the next few weeks.

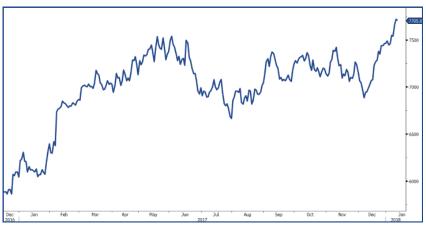
UK Construction Sector Headwinds

With UK homebuilders reporting this week, it is a good time to assess the state of the UK construction market. Revenue from most housebuilders grew at a decent rate into the end of 2017. But when you look at the underlying numbers, the majority of this growth was driven by inflation linked price rises. The BOE expects inflation to decline this year so that element of growth should subside. Forward looking indicators for the UK construction sector do not give much cause for optimism either. Building activity and mortgage approvals were flat last month. Industry confidence & output is low while capital lending to the sector is declining. The government recently opted not to extend the Help to Buy scheme and there was little else in the recent budget to help the sector.

DCC Acquire UK LPG Business

Management announced this morning it had acquired the LPG business of Countrywide Farmers for £28,75m. The business supplies bulk and cylinder LPG to domestic, agricultural and commercial customers in Britain. The business sells approx. 20,000 tonnes of LPG annually. This deal is not of a big enough size to move the dial but continues management's stated goal of re-pivoting the business towards the higher margin, high growth LPG sector.

DCC Share Price



Source: Bloomberg, CF Research January 2018

CANTOR FITZGERALD IRELAND LTD



	Value	Change	% Change	% Change YTD	
Dow Jones	25369	-16.67	-0.07%	2.63%	
S&P	2748	-3.06	-0.11%	2.79%	
Nasdaq	7154	-10.01	-0.14%	3.62%	
Nikkei	23,710	-77.77	-0.33%	4.15%	
Hang Seng	31,120	46.67	0.15%	4.01%	
Brent Oil	69.3	0.10	0.14%	3.63%	
WTI Oil	63.76	0.19	0.30%	5.53%	
Gold	1319	1.74	0.13%	1.22%	
€/\$	1.1948	0.0000	0.00%	-0.47%	
€/£	0.8856	0.0010	0.11%	-0.28%	
£/\$	1.3492	-0.0015	-0.11%	-0.16%	
			Yield	Change	
German 10 Year			0.52%	-0.027%	
UK 10 Year			1.26%	-0.027%	
US 10 Year			2.53%	-0.022%	
Irish 10 Year			0.93%	-0.013%	
Spain 10 Year			1.50%	-0.054%	
Italy 10 Year			2.00%	-0.036%	
Source: Blog		Decembrah la	m 0010		

Source: Bloomberg, CF Research Jan 2018



25/01/2018 Fed Meeting 30/01/2018 ECB Meeting 04/03/2018 Italian Election

Market View

Markets were flat overnight as traders see-sawed between higher and lower US yields. The move in US treasuries resulted in the first down day for markets year after a very strong start. European and US equities were lower by the close and Asian markets followed suit. Market focus today will be on those yields with some noted bond gurus calling this as the start of a bond bear market. Focus will also be on US PPI data and earnings season which kicks off in earnest tomorrow with BlackRock, JPM and Wells Fargo all reporting.



Grafton - Business model remains the best in class

News

Grafton released a trading update this morning that continued the theme of 2017 - strong performance in Ireland and the Netherlands with continuing softness in the UK. Overall group revenue increased by 8.8% to £2.7bn, in line with market expectations. In constant currency terms this figure was 6.8%. UK Merchanting like-for-like (LFL) revenue softened as expected with growth of 3%. Trading conditions in the RMI market were mixed and continue to be affected by consumer uncertainty and a competitive pricing environment. The expansion of Selco saw two more branches open in December, bringing the overall number of branches to 59. The Irish merchanting business continues to perform very well with 10% LFL revenue growth, the fourth successive year it has achieved this. The Irish RMI and house building market recovery drove this strong performance. Likewise in the Netherlands, increased activity in the housing and construction sectors ensured a strong performance while Belgium continues to recover. The Woodies business in Ireland continues to trade strongly, posting LFL growth of 12.5% in Q4/17.

Comment

These were a strong set of results despite the softness in UK trading. Management anticipates reporting "2017 EBITDA slightly ahead of consensus forecasts" when full year results are released on the 1st March. Overall Grafton has weathered Brexit uncertainty very well. Undoubtedly its regionally diversified revenue streams have helped. But management's restructuring in 2016, which allows for more efficient centralised pricing and less pressure on margin, has also helped the UK side of the business. The Group continues to maintain an excellent balance sheet and has a progressive dividend policy which should see a reasonable increase in dividend over the coming quarters. It is the UK market that is of most concern to management, though it remains more optimistic than peers. UK economic and consumer data held up remarkably well in the 8-10 months after the Brexit referendum. But we have recently seen a deterioration of UK economic data, and more specifically UK housing & consumer data recently. We believe Grafton is the best model out of its peer group and remains attractive for investors due to its geographically diversified revenue streams. We maintain our Market Perform based on the substantial rally it has had over the past year and current valuations, trading at FY18 P/E of 15x.

Will Heffernan | Investment Analyst

Closing Price - £74.45

Cantor Publications & Resources

Weekly Trader	CANTON Filigerald			
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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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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

DCC: DCC is a sales, marketing, distribution and business support services company.

Grafton Group: Grafton Group PLC manufactures and retails building supplies.

Historical Recommendation:

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated

Grafton Group: We have placed Grafton Under Review having been positive since 07/03/13

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