Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

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.

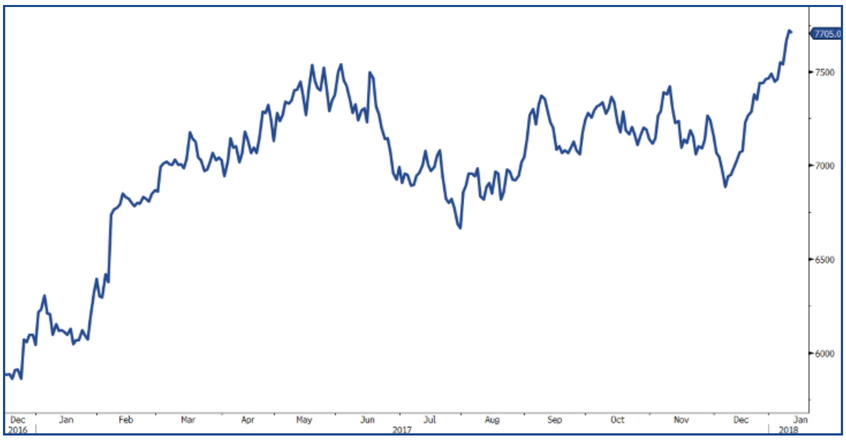
UK Construction Sector Headwinds

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

Key Upcoming Events

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.

Market Moves

	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: Bloomberg, CF Research Jan 2018

Grafton - Business model remains the best in class

Closing Price - £74.45

News

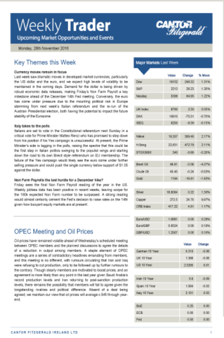
Grafton released a trading update this morning that continued the theme of 2017 - strong performance in Ireland and the Netherlands with continuing softness in the UK. Overall group revenue increased by 8.8% to £2.7bn, in line with market expectations. In constant currency terms this figure was 6.8%. 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

Cantor Publications & Resources



Weekly Trader

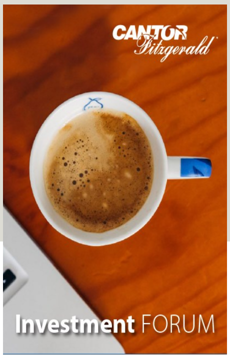
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

Click Here

Monthly Investment Journal

Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our Core Portfolio, including the Green Effects fund, most recent private equity deals and structured product investment opportunities.

Click Here



Investment Forum

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

Click here

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

http://www.cantorfitzgerald.ie/research_disclosures.php

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retails clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendations or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchased or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

Conflicts of Interest & Share Ownership Policy

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.