Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Thursday, 3rd May 2018

Morning Round Up

US Fed statement indicate inflation tolerance

The latest FOMC statement yesterday, has given the markets the clearest indication yet that it will be willing to tolerate inflation running above its 2% target for a period of time. This comes in the wake of Monday's data that showed PCE (the Fed's preferred measure of inflation) hitting 2% for the first time since April 2012. The statement noted that inflation "moved close" to the 2% target and is running near "symmetric" goal in the medium term. The Fed also removed the line stating that "economic outlook has strengthened in recent months". One major question that has dogged markets this year has been whether or not hitting this target would cause the Fed to ramp its rate hiking cycle. Yesterday's release implies that the Fed is unlikely to react to that event by hiking faster than the already stated guidance. There was little reaction from the market with yields and the dollar staying where they were. However, dollar bulls have lost one of their central arguments as to why the recent dollar strength should continue. Overall, a dovish statement.

Brexit border and the House of Lords

Theresa May has been fighting wars on numerous fronts of late, the embattled Prime Minster seems to be lurching from one Brexit related catastrophe to another. Ignoring for the moment that the European side have already dismissed May's border solutions, May's own cabinet have reportedly revolted on the idea of a customs partnership with the brexitier portion marginally winning a vote on the issue. The euroskeptic portion of the cabinet, which includes Boris Johnson, Michael Gove, Liam Fox and David Davis, all reportedly in favour of the second option which requires technology not yet in existence to police the border along with "trusted traders" to reduce friction. Bringing the EU back into the equation, European negotiators as well as Irish politicians haven't accept either of these solutions as being workable.

Meanwhile, in the House of Lords, the Prime Minister's Brexit Bill is being scrutinised. The peers have been voting through amendments to the bill that will restrict the Government's power at the negotiating table by giving the parliament the ability to force a return to negotiations to avoid exiting the EU without a deal. The Government has lost 10 votes on amendments to the Brexit Bill. After sterling enjoyed some strengthening up to 86p on the back of optimism relating to brexit, successive defeats in the House of Lords as well as a divided cabinet have put pressure on sterling. With negotiations set to intensify, it is hard to see a soft landing on these issues. We expect sterling to weaken as the prospects of a harder brexit emerge and strengthen on any positive softer brexit outlook. Sterling is currently trading at 88p against the Euro and we expect it to close out the week closer to 90p.

AIG Q1 results disappoint

AIG reported Q1 results after the bell yesterday evening, and is set to open down today after reporting poor performance. Net income came in at $963mln down YoY from £1.4bn and behind expectations of $1.2bn. General Insurance performance was poor, headline combined operating ratio (COR) for the quarter was 103.8 vs 117.3 FY17 & 99.8 Q1/17. Poor performance can be largely attributed to high catastrophe losses as well as higher adjusted COR at 99.7 versus FY/17 97.1 (excluding reserve changes and NatCat). The Life business performed ok, it maintained similar absolute level of profitability on a 9% drop in revenues. North America posted a premium drop of 12%, which was offset by a 4% increase in International lines.

Source: Bloomberg, CF Research May 2018

Key Upcoming Events

30/06/2018 US Tariff Exemption Deadline

Market View

HK and China stocks were the major losers yesterday as both Chinese and US officials released hawkish comments in advance of today's trade talks kicking off. This risk off sentiment may pervade over the next few days as the market awaits the outcome of these talks. Oil declined as US inventory build up and uncertainty regarding the Iran sanctions weighed on the commodity. Market focus today will be on those trade talks, European inflation data and US PMI and new orders data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23925	-174.07	-0.72%	-3.21%
S&P	2636	-19.13	-0.72%	-1.42%
Nasdaq	7101	-29.81	-0.42%	2.86%
Nikkei	22,473	-35.25	-0.16%	-1.28%
Hang Seng	30,278	-445.91	-1.45%	1.20%
Brent Oil	73.24	-0.12	-0.16%	9.53%
WTI Oil	67.92	-0.01	-0.01%	12.41%
Gold	1308	2.74	0.21%	0.38%
€/$	1.1984	0.0033	0.28%	-0.17%
€/£	0.8815	0.0011	0.13%	-0.74%
£/$	1.3597	0.0021	0.15%	0.62%

	Yield	Change
German 10 Year	0.59%	0.009%
UK 10 Year	1.48%	0.018%
US 10 Year	2.97%	0.006%
Irish 10 Year	1.00%	0.009%
Spain 10 Year	1.31%	0.001%
Italy 10 Year	1.80%	0.006%

Source: Bloomberg, CF Research May 2018

Kerry Group - Q1 trading update

Closing Price - €85.75

News

Kerry Group released its Q1/18 IMS prior to today's AGM. It was a mixed announcement as volume growth was underwhelming while pricing improved, margins were solid and management reiterated guidance. Group wide business volumes grew by 3.7% (vs 4.3% FY17) and pricing increased by 0.9% over the quarter. Revenues increased by 0.1% as growth and acquisition revenue was offset by a 8.5% currency translation effect and 0.1% currency transaction effect. Profit margins were maintained as pricing improvements were offset by a 60bps sterling transaction impact. Management reported results to be in line with expectations reaffirming guidance for FY18 EPS growth of between 6% and 10% from a constant currency (cc) perspective.

Taste and Nutrition (T&N), which represents circa 80% of the business, saw volumes grow by 4.3%. This is below FY17 volume growth of 5.2%. Positively trading profit margin increased by 20bps as pricing improved by 0.9%. Volume growth across geographies relative to FY17 was down. Growth in developed markets was 2.6% while developing markets remained high at 9.5%.

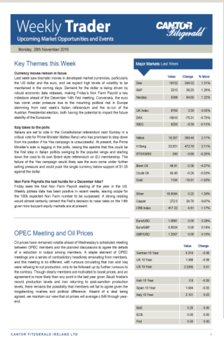
Consumer Foods, which represents circa 20% of the business, saw volumes grow by 1.6%. This is below FY17 volume growth of 2.4%. Trading profit margin fell by 60bps as 1% pricing improvements were offset by transaction currency effects. Net Debt remained unchanged at €1.3bn.

Comment

There were both positives and negatives from this announcement. Softer volume growth may weigh on investor sentiment. Importantly developing markets remain the main source of growth within T&N. Kerry is aligning itself well to capitalise on growing economies as operations are expanding both organically and through acquisitions. Over the quarter Kerry acquired SIAS food in China and Season to Season in South Africa. Developed market growth, although lower, remains solid. We hope to see some improvements in coming quarters. Pricing and margin expansion (ex currency effects) are a positive, particularly given the pressures facing this sector. Management reiterating FY18 guidance will reassure the market, however currency will significantly effect earnings (-7% guided in February). The stock was down at market open. We are meeting management next week to the discuss the results and outlook for the group. We confirm our Outperform rating but headwinds facing the sector should be acknowledged. We will update again post the meeting with management.

David Fahy | 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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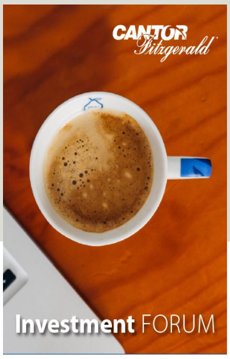

Investment Forum

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)

Kerry: Kerry Group PLC is a major international food corporation. The Group develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients.

Historical Recommendation:

Kerry: We added Kerry to our Core Portfolio on the 16/11/2016 with an Outperform rating.

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