

Thursday, 10th May 2018

Morning Round Up

BOE Preview

The BOE MPC releases its interest rate decision with market expectations for no change (15% probability). This is in stark contrast with a month ago when the market had priced in a 92% chance of a hike. Since then we have had some serious degrading in [economic data](#), some [significant losses](#) for May's Brexit bill in the House of Lords and several BOE officials, including Governor Mark Carney, have been quick to highlight the poor data and the need for caution. The yield on a 10 year gilt has come by 20bps from a February high of 1.69%. As expectations of a rate rise increased, sterling benefitted and appreciated against most majors. It has since come off as the probability declined, moving from a high of \$1.43 to \$1.35. The market is now pricing the next rate hike for December. This meeting will be crucial in determining sterling's next step. Analysts will be looking to ascertain if it is a hawkish or dovish hold and whether or not the BOE keeps its options open on future hikes. The split of the vote will be crucial in determining this; the number of dissenters or if there are any dissenters at all to keeping rates on hold is likely to be a key factor and would give the market some indication if there is any support for an August hike. Current market expectations are for 2 of the 9 members to dissent. Any number above that should be perceived as hawkish.

Middle East volatility pushing oil higher

Oil consolidated above \$71 a barrel after news broke that Iran had allegedly fired missiles at Israeli soldiers in the Golan Heights. This was in response to [Israeli strikes yesterday](#). Israel responded in kind and struck Iranian targets in Syria again. This tit-for-tat violence always has the potential to escalate rapidly and is now occurring in the context of [reimposed US sanctions](#) on Iran. EIA data yesterday also showed that US crude stocks declined by 2.197m barrels vs an estimate of 0.16m build, which is positive for oil. Iran is the world's 4th largest producers and sanctions could potentially cut exports by 500k barrels a day. In the short term it is likely [oil will move higher and exceed](#) our own price target (\$60-\$70 a barrel). Despite US producers responding as we [expected](#), we are now seeing evidence that they are having trouble getting this oil to market due to pipeline and logistic difficulties. If the tension in the Middle East does not subside, oil prices are likely to push higher in the short-term.

One Year Oil Price



Source: Bloomberg, CF Research May 2018

Key Upcoming Events

30/06/2018 US Tariff Exemption Deadline

Market View

European markets were mixed this morning despite a positive close in Asia. US dollar fell, retracing some of its recent gains. EM indices rallied as a result. Oil continued to hold onto its gains amid news of further clashes in the Middle East. US ten year yield moved back down from the important 3% level as markets shook off the recent geopolitical volatility. Market focus today will be on the BOE meeting, along with several important data points including UK manufacturing and US inflation data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24543	182.33	0.75%	-0.71%
S&P	2698	25.87	0.97%	0.90%
Nasdaq	7340	73.00	1.00%	6.32%

Nikkei	22,497	88.30	0.39%	-1.18%
Hang Seng	30,777	240.95	0.79%	2.87%

Brent Oil	77.75	0.54	0.70%	16.27%
WTI Oil	71.64	0.50	0.70%	18.57%
Gold	1312	-0.39	-0.03%	0.73%

€/\$	1.1866	0.0015	0.13%	-1.16%
€/£	0.8751	0.0004	0.04%	-1.46%
£/\$	1.3559	0.0012	0.09%	0.34%

	Yield	Change
German 10 Year	0.56%	-0.002%
UK 10 Year	1.45%	-0.003%
US 10 Year	2.99%	-0.018%

Irish 10 Year	0.98%	0.001%
Spain 10 Year	1.31%	0.002%
Italy 10 Year	1.91%	0.029%

Source: Bloomberg, CF Research May 2018

ICG - Trading Update

Closing Price - €5.60

News

Irish Continental Group (ICG) issued a trading update covering the year to the 8th of May. Volume figures were solid, however fuel costs and the delay in the delivery of W.B Yeats will adversely effect profits. As at the 30th of April, Group revenue was €96.4m up 1.4% from the same period last year. Volumes grew across the board, Cars (+2.4%). RoRo Freight (+3.9%), Container Freight (+1.1%) and Terminal Lifts (+4.8%). Cash increased from €39.6m at the beginning of the year to €69.3m due to the sale of the Jonathan Swift. Within the ferries division, revenues decreased by 2.4% (yoy) to €52.3m. This was attributable to loss of charter income following the sale of the Kaitaki and the redeployment of the Westpac Express. Container and Terminal revenue grew by 6.1% yoy to €46.8m.

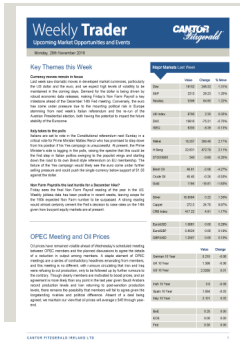
The delay in the delivery of the W.B. Yeats has cost about €2.5m in lost revenue, approximately 3% of FY18 estimate EBITDA. So far 94% of customers have opted to reroute on the Oscar Wilde, 5% have sought a refund and 1% are yet to decide. The Johnathan Swift was delivered on the 26th of April with the sale generating €14m book profit. It should be noted that the Group's business is significantly skewed to the summer months while fuel costs will be impacted by higher global prices.

Comments

Overall a mixed update with volume growth remaining solid and further evidence ICG's ability to generate revenue from shrewd management in the disposal of assets. The clear negatives are the higher fuel costs (moving into double digit increases) and €2.5m in lost revenue as a result of the delay in the delivery of the W.B Yeats. Fuel costs will particularly affect margins on car revenues due to the delay in pass through to price. Overall the two factors are likely to reduce FY18 EBITDA by €4.5-€5.5m. Brexit remains the major [uncertainty](#) while as mentioned above the summer months are the key period for the group. We are moving ICG to Under Review pending estimate changes and further analysis of expected fuel prices for the remainder of the year.

David Fahy | Investment Analyst

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

ICG: Irish Continental Group plc markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe .

Historical Recommendation:

ICG: We have been positive on ICG's outlook, since 07/03/13. We change our rating to Under Review as of 10/05/2017

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