# Daily Note

Views, news and topics from today's markets

Thursday, 28<sup>th</sup> June 2018

## Morning Round Up

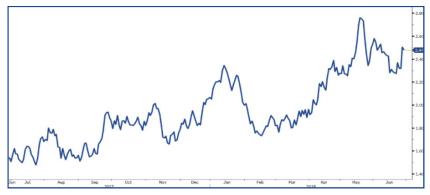
## Half Year Report

As we had expected this year, 2018 is turning out to be a year in stark contrast to 2017. As we reach the 6 month mark it is a good time to sit back and take stock. We have already written in great detail about market drivers this year, so perhaps it would be best just to look at the numbers. The S&P 500 is up 0.97% YTD. It is down 6% from its tax reform driven high in January and is up just 0.52% from Q1 earnings season (which produced 24% growth). The Dow Jones, which is not market cap weighted and has more names that could be affected by tariffs, is down 2.43% YTD. It is down 9.5% from its January highs and down 1.93% since the end of Q1 earnings season. The Nasdaq, primarily driven by US Tech names, is up 7.8% YTD. It is up 0.82% since its January highs and 2% since the end of Q1 earnings season. Investors have perceived US Tech companies to be somewhat immune to tariffs which has helped performance. However, it is down 5% in the last week since it emerged that the US is seriously considering limiting Chinese investment in US companies. Moving to Europe, the EuroStoxx 600 is down 2.37% YTD. It is down 6.3% since its January highs and about 2.5% down since the end of Q1 earnings season. In the US the best performing sectors this year have been Oil & Gas, Transport, Tech and Consumer Discretionary. The worst have been Housing, Airlines, Paper & Packaging and Financials. In Europe the best performing sectors have been Oil & Gas, Tech, Media & Retail with the worst performing being Telecoms, Autos, Foods, Insurers & Banks

#### **Tullow Half Year Trading Update**

Prior to the group's half year results on the 25th of July, Tullow released a broadly positive half year trading update. Production guidance for the year was increased while debt reduction continued. H1/18 revenue is expected to be \$900m (H1/17 \$0.8bn), below consensus of \$975m. H1/18 gross profit of \$500m was above the same period last year of \$300m. Free cash flow generation has strengthened and is expected to be \$300m. Capex guidance remains unchanged at \$460m. Importantly net debt/EBITDA fell from 2.6x (as at the end of 2017) to 2.1x. Guided production has increased from 82k - 90k b/d to 86k-92k b/d. This has predominately stemmed from guidance upgrades in both Jubilee and TEN fields. This is despite lower than expected drilling from the Jubilee field due to maintenance work. Gross production was approximately 90.1k b/d for H1/18. A second rig, the Stena Forth, has been contracted to work on its drilling programme in Ghana. According to the release the Kenya development plan is progressing well, remaining on track for FID in late 2019. CEO Paul Mcdade was optimistic in his assessment of the results and outlook, highlighting production increases and cash flow growth in West Africa, progress in East Africa and further prospects in both Africa and South America. At a first glance the update looks broadly positive with increases to production guidance and debt reduction, however headline revenue for the first half of the year was slightly disappointing.

## 1 Year Tullow stock



Source: Bloomberg, CF Research June 2018





## **Key Upcoming Events**

06/07/2018 Implementation of US Tariffs

## **Market View**

China sold off heavy into the close as the initial optimism from Steven Mnuchin's dovish trade comments were then offset by hawkish comments later on in the session by Larry Kudlow, the White House economic advisor. Likewise in the US, markets rallied for the afternoon but sold off into the close with the Nasdaq down 1.5%. As expected, politics is the main short term driver of markets. Market focus today will be on the EU summit where Ms Merkel is expected to push for an immigration agreement in order to save her government along with EU confidence numbers, German inflation rate and US Q1 GDP final numbers.

Market Moves						
	Value	Change	% Change	% Change YTD		
Dow Jones	24118	-165.52	-0.68%	-2.43%		
S&P	2700	-23.43	-0.86%	0.97%		
Nasdaq	7445	-116.54	-1.54%	7.85%		
Nikkei	22,270	-1.38	-0.01%	-2.17%		
Hang Seng	28,345	-11.17	-0.04%	-5.26%		
Brent Oil	77.57	-0.05	-0.06%	16.00%		
WTI Oil	72.55	-0.21	-0.29%	20.08%		
Gold	1250	-2.51	-0.20%	-4.07%		
€/\$	1.1557	0.0003	0.03%	-3.73%		
€/£	0.8832	0.0023	0.26%	-0.55%		
£/\$	1.3085	-0.0028	-0.21%	-3.17%		
			Yield	Change		
German 10 Year			0.33%	0.006%		
UK 10 Year			1.26%	0.014%		
US 10 Year			2.84%	0.016%		
Irish 10 Year			0.86%	0.001%		
Spain 10 Year			1.36%	0.000%		
Italy 10 Year			2.79%	-0.016%		
Source: Bloo	mberg, CF F	Research Ju	ne 2018			

## **Cantor Publications & Resources**

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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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## **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)

Tullow Oil: Tullow Oil through subsidiaries, explores for, produces, and refines petroleum

#### **Historical Recommendation:**

Tullow Oil: We initiated coverage on Tullow Oil on 7th April 2017 with a Market Perform rating

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