

Tuesday, 11th September 2018

Morning Round Up

Sterling strengthens on Barnier optimism

Sterling strengthened yesterday on comments reportedly made by the EU chief negotiator's, Michal Barnier, that a 6-8 week time line was realistic for agreeing a deal with the UK on its exit. Sterling moved higher against both the Euro and the Dollar as a result. European leaders favour Mrs May's current softer strategy and look willing to concede on some issues to secure a deal. However, the Eurosceptic element of the Tory party, led by Jacob Rees-Mogg, pose a significant threat to Mrs May's government in the lead up to the Conservative Party Conference on the 30th of September.

Ryanair hit with further strike action

German pilots union (Vereinigung Cockpit, VC) called for strike action yesterday to take effect on the 12th of September. German pilots will strike from Wednesday 01:01 GMT until Thursday 00:59 GMT, affecting all flights departing from Germany during that period. In a written statement responding to VC, Ryanair said "Since we have already offered local contracts and improved pay there is no justification for further disruption and we are calling on our German pilots to work this Wednesday,". While the union has warned that recent Irish and Italian agreements would not be a blueprint for a German agreement because key questions on pay and working conditions had not been addressed. Despite the current disruption we maintain our outperform rating on Ryanair and see current weakness as an opportunity to build a position in the stock.

Further pain for Debenhams

Debenhams shares fell 19% in early trading yesterday on the back of weekend media reports that it was seeking advice on restructuring. In response to the share decline, management released an unplanned update stating that it is on track to meet management guidance for the remainder of the year. Chairman Sir Ian Cheshire stated that the company "continues to work with its advisers on longer term options". The share price is likely to remain under pressure after 3 profit warnings in 9 months and a 50% cut to consensus estimates.

ABF sweating it out

In a continuation of troubling times for UK retailers, Associated British Foods (ABF) company Primark, has announced that same store sales will be 2% lower in the year to mid-September. Overall sales will be 5.5% higher thanks to new store openings. Management has blamed an unusually hot summer for the fall in LFL sales. Primark accounts for about 60% of ABF's EBITDA a year. Primark is particularly exposed to secular changes in retail as it does not sell online. Its margins are too small in order to function as an online entity. ABF shares have fallen 20% YTD. The weakness in clothing is further exacerbated by poor trends in its sugar business stemming from global oversupply and influx of supply into Europe. Operating margins across the group are expected to be stable this year which will be seen as a positive.

EURGBP 5 Day Chart



Source: Bloomberg, CF Research September 2018

Key Upcoming Events

11/09/2018 ZEW Sentiment Indicator
26/09/2018 Fed Interest Rate Decision
30/09/2018 Conservative Party Conference

Market View

US markets posted marginal gains yesterday as trade rhetoric dominated the headlines. President Trump threatened China with an additional \$267bn in tariffs. Meanwhile the short end of the US yield curve continues to rise with the 2 year currently trading at 2.72% leaving the 2Y10Y spread at 10 year lows 22bps. Elsewhere Asia posted mixed results with a weakening Yen benefiting Japanese stocks while the Hong Kong market teeters on the edge of a bear market. European markets opened flat this morning with participants looking towards European employment data and German sentiment indicators out today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25857	-59.47	-0.23%	4.60%
S&P	2877	5.45	0.19%	7.61%
Nasdaq	7924	21.62	0.27%	14.79%

Nikkei	22,665	291.60	1.30%	-0.44%
Hang Seng	26,434	-179.79	-0.68%	-11.65%

Brent Oil	77.89	0.52	0.67%	16.48%
WTI Oil	67.72	0.18	0.27%	12.08%
Gold	1196	0.35	0.03%	-8.18%

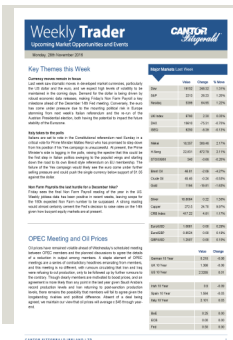
€/\$	1.1633	0.00	0.34%	-3.10%
€/£	0.8901	0.00	0.01%	0.23%
£/\$	1.3069	0.00	0.33%	-3.29%

	Yield	Change
German 10 Year	0.418	0.02
UK 10 Year	1.496	0.03
US 10 Year	2.9479	0.02

Irish 10 Year	0.892	0.01
Spain 10 Year	1.465	0.01
Italy 10 Year	2.88	-0.0340

Source: Bloomberg, CF Research September 2018

Cantor Publications & Resources



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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

Historical Recommendation:

Ryanair: Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then

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