

Thursday, 13th September 2018

Morning Round Up

Political machinations ramp up

We had been writing recently about the improvement in Brexit commentary from both the EU and UK. Yesterday we highlighted that one of the major stumbling blocks to a smooth path to resolution was [the internal Tory divisions](#) that Mrs May is facing and the possibility of a putsch leading to her removal. Yesterday up to 50 Tory MPs of the Eurosceptic European Research Group (ERG) attended a meeting in Westminster's Thatcher room where they discussed the possible scenarios for ousting Mrs May. Comments at the meeting were said to include "everyone I know says she has to go", "she's a disaster" and "this can't go on". As news of progress has broken in recent weeks, the Eurosceptic Tories have become increasingly desperate in their rhetoric and actions. Jacob Rees-Mogg this week abandoned plans to produce an alternative Brexit paper because ERG members could not agree on a plan.

Mr Rees-Mogg has distanced himself from internal plotting while Boris Johnson is on the back foot due to issues in his personal life and perceived disloyalty to the party. In order to force a no confidence vote, 48 Tory MPs have to call for one. It then must be passed by 158 parliamentary party members; unlikely in our view as the remainder of the Tory party are not particularly enamoured by the personalities on the Eurosceptic side. They may also not wish to set the ball rolling on a possible general election at such a critical time in Brexit negotiations. As of now Mrs May is likely to survive and will face her next test at the Party conference at the end of September along with when she has to present the finalised deal to the House of Parliament for a "meaningful vote".

Oil hitting top of the range

Oil has been strong lately with Brent now trading at \$79.51 a barrel and WTI trading at \$69.68 a barrel. The recent short term momentum has been brought about by Hurricane Florence. Initial fears for some oil infrastructure in the region have abated as the hurricane has altered its course and wind speeds have reduced from their peak prior to making landfall. This caused levels to soften marginally from Wednesday intraday highs. The weaker USD of late has obviously helped. Crude oil production in the US is expected to moderate to 840k barrels a day in the short term, down from 1mbd due to pipeline and trucking constraints. Data this week showed an 8.6m drawdown in US crude stockpiles vs an estimate of 805k. Recent reintroduction of US sanctions on Iran are expected to start hitting home in November. South Korea has already stopped imports from Iran and buyers from China & India have begun to reduce Iranian purchases. The ramp-up in production from Saudi Arabia and Russia, designed to offset this, has been slower to build than anticipated. However there are rising concerns on the demand side, due to EM and growth worries, and the White House has shown over recent months it is willing to interject in the oil market if prices move too high, too quickly. We expect oil to remain range bound around current levels for the remainder of the year.

Apple product launch as expected

Apple launched three new variants of the iPhone X and a new Watch Series 4 at yesterday's annual product event. The news was largely incorporated in the lead up to the keynote with the stock trading down by 1.2% on the day. Pricing for the iPhone was an important point for analysts looking for an increase in average selling price (ASP) in the wake of flat volume growth. Starting prices of \$749, \$999 and \$1,099 for the three new models vs. last year's \$699, \$799 and \$999 should drive ASP and revenues higher in FY18. The Watch Series 4 was the best received news, with the announcement confirming Electrocardiogram (ECG) function that got a first-of-its-kind approval from the FDA. Smart watch competitor Fitbit Inc fell almost 7% on the news. Apple continues to impress with its product line, however the stock is currently only showing c. 3% upside to consensus price target of \$227

Source: Bloomberg, CF Research September 2018

Key Upcoming Events

13/09/2018 ECB Monetary Policy Meeting
 13/09/2018 BOE Monetary Policy Meeting
 19/09/2018 EU Leaders Summit
 26/09/2018 Fed Interest Rate Decision
 30/09/2018 Conservative Party Conference

Market View

Trade continues to be the dominant force on markets with news coming from the Trump administration that Trade Secretary Steven Mnuchin is seeking to re-establish talks with his Chinese counterparts. Asia rallied after a protracted period of weakness on the news. The Hang Seng posted gains of 2.30% while the Nikkei advanced 1%. Positive trade sentiment hasn't fed through to Europe with markets remaining flat this morning. Participants will be focused on central bankers today with Mark Carney and Mario Draghi both making policy decisions.

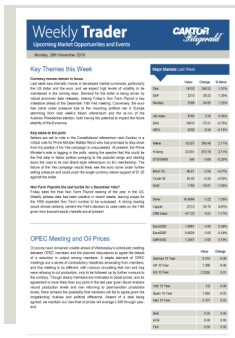
Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25999	27.86	0.11%	5.18%
S&P	2889	1.03	0.04%	8.05%
Nasdaq	7954	-18.25	-0.23%	15.22%
Nikkei	22821	216.71	0.96%	0.25%
Hang Seng	27014	669.45	2.54%	-9.71%
Brent Oil	78.96	-0.78	-0.98%	18.08%
WTI Oil	69.36	-1.01	-1.44%	14.80%
Gold	1206	-0.42	-0.03%	-7.44%
€/\$	1.1619	0.00	-0.06%	-3.22%
€/£	0.8910	0.00	-0.05%	0.32%
£/\$	1.3041	0.00	-0.03%	-3.49%

	Yield	Change
German 10 Year	0.416	0.01
UK 10 Year	1.497	0.01
US 10 Year	2.97	0.01
Irish 10 Year	0.908	0.02
Spain 10 Year	1.465	0.00
Italy 10 Year	2.97	0.0180

Source: Bloomberg, CF Research September 2018

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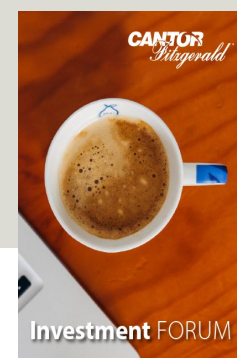
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