Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Wednesday, 14th November 2018

# Morning Round Up

**May's Moment of Truth**

After all night deliberations on Monday, the EU and UK have agreed on the final text for the UK's divorce deal, which was announced yesterday. The real test however will be today as Theresa May seeks to attain support for the deal, May invited her ministers one by one to Downing Street last night to read the divorce agreement. Today, they will be asked to sign off on the deal at a 2 p.m. meeting, but there is a risk that some ministers will resign instead of giving approval. The major sticking point of the Irish border has been overcome, but at the high price of the whole UK remaining in the EU's customs and trade orbit indefinitely. While businesses would welcome this arrangement it was described by politicians on all sides as a betrayal of the 2016 referendum, with Northern Ireland's DUP branding it as unacceptable. May however has received support from her most important pro-Brexit ministers with Foreign Secretary Jeremy Hunt, Brexit Secretary Dominic Raab and Environment Secretary Michael Gove backing the deal. The pound caught a bid on the back of the announcement etching up 1.5% before pairing gains to reach 86.56 pence per euro. If today goes well a summit of EU leaders could be called towards the end of November with the 25th being mentioned as a likely date. All eyes' will be on London today as approval from May's ministers is the first step to getting Cabinet and Parliament sign off. If the deal is rejected it could stall negotiations and set the UK on track to crash out of the EU.

**Oil prices continue to fall**

Fears over excess supply and falling demand have led to an aggressive sell off in oil prices this month. The extent of which was accelerated by technical factors yesterday as certain long positioning led to a necessity for shorting/ selling. There have been a slew of factors leading to fears over excess supplies. Opec/Russia's decision and subsequent delivery of 1m additional barrels a day since June in response to US sanctions on Iran saw supply tightening fears alleviated in the summer. Last week Donald Trump issued 8 waivers to major Iranian oil importing nations, essentially removing the necessity for the 1m increase from OPEC/Russia's. As we had expected since the beginning of the year, higher oil prices this year has seen a sizeable increase in US shale production, reaching record production levels. Meanwhile fears over falling demand led by predictions for slower economic growth into next year (with trade wars looming in the background) continued to gain traction. The IMF recently cut its forecast for global growth in 2019 while OPEC and the EIA cut their oil demand forecast for next year. Further hampering oil prices has been the recent strength of the dollar, with it hitting its highest level in over a year.

These collection of headwinds for oil has seen it drop by 25% since the beginning of October. While it may be a tad too early to call, it looks like it is closing in on a bottom. Firstly, Opec/Russia have already spoken about a production cut of 1m b/d next year (despite tweets from Trump), with a decision due to be made at their meeting in Vienna in early December. Secondly, despite downgrades to global growth next year it remains relatively strong. Thirdly, in our opinion the dollar will weaken into year end. Fourthly, the US waivers for oil importers from Iran are due to expire in 6 months, however an extension is possible. Fifthly, Venezuela continues to move toward an all-out economic failure. Finally the rate of shale production coming stream will fall in line with prices. With these factors in mind we maintain our view from the beginning of the year for oil (WTI) to finish the year between the $60 - $70 range.

Source: Bloomberg, CF Research November 2018

## Key Upcoming Events

21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

## Market View

US markets closed flat to marginally down yesterday after a strong open on trade optimism. Energy lead the market lower as WTI fell to $55.48 a barrel. Negative sentiment continued into Asia overnight with markets trading lower. US yields were also lower, with the 10 year reaching 3.14%. The prospect of a Brexit deal saw the pound strengthening to £0.865 finishing the day marginally weaker. Europe is set to open negative this morning. Investors will be watching if Mrs May can get cabinet approval for her Brexit deal today, a response from Brussels to the Italian budget stance, and a raft of European economic data

## Market Moves

| | Value | Change | % Change | % Change YTD |
|---|---|---|---|---|
| Dow Jones | 25286 | -100.69 | -0.40% | 2.29% |
| S&P | 2722 | -4.04 | -0.15% | 1.82% |
| Nasdaq | 7201 | 0.01 | 0.00% | 4.31% |
| Nikkei | 21846 | 35.96 | 0.16% | -4.03% |
| Hang Seng | 25654 | -138.44 | -0.54% | -14.25% |
| Brent Oil | 66.65 | 1.18 | 1.80% | -0.33% |
| WTI Oil | 56.27 | 0.58 | 1.04% | -6.87% |
| Gold | 1198 | -4.26 | -0.35% | -8.05% |
| €/$ | 1.127 | 0.00 | -0.18% | -6.12% |
| €/£ | 0.8691 | 0.00 | -0.11% | -2.13% |
| £/$ | 1.2967 | 0.00 | -0.08% | -4.04% |

| | Yield | Change |
|---|---|---|
| German 10 Year | 0.394 | -0.02 |
| UK 10 Year | 1.504 | -0.02 |
| US 10 Year | 3.1415 | 0.00 |
| Irish 10 Year | 0.975 | -0.01 |
| Spain 10 Year | 1.612 | 0.01 |
| Italy 10 Year | 3.50 | 0.0540 |

Source: Bloomberg, CF Research November 2018

## **Prudential** - New business profits showing strong growth    Closing Price - £16.16

### News

Prudential released an update overnight ahead of its investor conference in Singapore today. For the first nine months of the year, the Group's life insurance new business profit grew by 17% (+12% on an actual exchange rate (AER) basis). In the underlying units, Asia posted new business profits up 15% (+9% AER). Management are focusing on recurring premium, health and protection business in the region. Eastsprings saw net external outflows of £2bn year to date. Assets under management (AUM) advanced to £149.2bn on internal net inflows and the acquisition of TMB Asset Management. In the US, Jackson's new business profit increased by 22% (+16% AER) due to higher interest rates and tax reform. In Europe, M&G Prudential saw new business profits rise 18% in the first nine months. Prufunds saw net inflows of £6.6bn, while it's asset manager, M&G, saw external net outflows of £5.6bn on the loss of a £6.1bn mandate bringing AuM to £334.4bn. On the capital side, Prudential posted a 205% Solvency II capital ratio up from 202% in December. Finally, management commented that the demerger process was making good progress.

### Comment

There was limited detail in Prudential's update this morning but enough to confirm the business is progressing in line with half year results and on track to deliver full year guidance. The investment case for Prudential concentrates on rising demand for insurance as more and more people are pulled out of poverty into the middle classes in Asia. This will drive product demand and support earnings growth for the foreseeable future. The demerger process has the potential to generate shareholder value, seeing the growth Asian and US business valued at higher multiples compared to the dependable European business generating steady profits in highly regulated markets. We maintain an outperform rating on the stock.

Pierce Byrne, CFA | Investment Analyst

## **Green REIT** – Shares trade at cheapest level since IPO    Closing Price - €1.44

### News

Green REIT shares have traded down to €1.42 (20% discount to trailing NAV), dragged lower by broad European market weakness and tightening monetary policy globally. The valuations are now the cheapest they have been since listing despite continued capital value appreciation and one of the highest dividend yields (3.6%) within the ISEQ.

In September, Green REIT released better than expected FY 2018 results, reporting contacted annual rent of €72.8m relative to its €1.4bn prime Dublin office portfolio. A combination of rent reviews and ongoing developments is expected to push Green REIT's annual rent roll toward €82m over the next two years. Longer term Green REIT's Central Park and Horizon logistics park will create further value for shareholders by adding an additional €35m of rental income. Long term investors who purchase shares at current levels could be end up with a 5%+ dividend yield on their investment by 2020/2021.

The Irish office market continues to be undersupplied given the strong take up from US TMT firms who are expanding here rather than London given the uncertainty surrounding Brexit. While interest levels have been high from UK firms enquiring about setting up a presence in Dublin, actual demand for office space from UK companies has yet to be fully reflected. Currently there is only 300,000 sqft of Dublin CBD office space available in 2019 which would imply that you could see rents hitting €70 per sqft next year if a huge influx in demand. Capital values continue to trend up with Google recently paying €1,200 per sqft for office space in Grand Canal Dock. This compares to prime real estate on Green REIT's balance sheet valued at €1000-€1,150 per sqft.

Green REIT management are held with high regard with many investors trusting that these guys have the experience to both acquire and dispose of assets at the right time. Given the importance of strong management to any company, we feel that Green REIT management are some of the best in the business. Pat Gunne, Green REIT's CEO, has been acquiring shares in Green REIT recently which adds to our conviction in the name. The correction in Green REIT's market cap has resulted in an opportunity to acquires shares in Green REIT with a gross rental yield to Enterprise Value of 7.1%.

### Comment

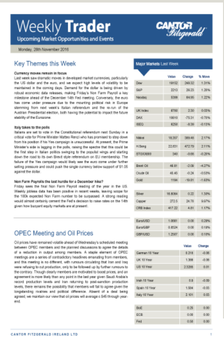
We agree with Pat Gunne and think that Green REIT is a solid investment in potentially volatile markets. Our fair value for Green REIT is €1.64 which offers 14% upside in addition to a current dividend yield of c.3.6%.

Catalysts for Green REIT include a trading update at its AGM in December, less hawkish monetary policy globally (already hearing of one rate hike next year in the US), a possible introduction by the ECB of a new TLTRO scheme as QE reverses and a surge in demand for office in Dublin as Britain leaves the EU.

REITs permit diversification within an investor's portfolio. For instance, over the period from January 1978 through May 2017, the monthly correlation of the Dow Jones U.S. Select REIT Index with the S&P 500 was 0.58, and was just 0.08 with five-year Treasury bonds.

Darren McKinley, CFA | Senior Equity Analyst

# Cantor Publications & Resources


Weekly Trader
Upcoming Market Opportunities and Events

## 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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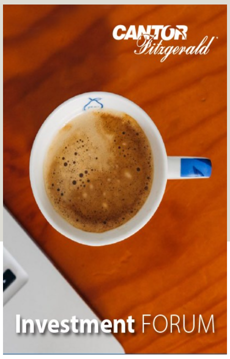


## Investment Forum

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)**
**Green REIT:** Operates as a property investment company
**Prudential plc:** Prudential plc is an international company which provides a wide assortment of insurance and investment products and services. Prudential's services include personal and group pensions, equity plans, mortgages, and deposit accounts

**Historical Recommendation:**
**Green REIT:** We moved Green REIT to "Outperform" from "Under Review" on the 13th of November 2018
**Prudential plc:** We have an "Outperform" rating on Prudential as of 01/03/2018

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