

Tuesday, 02nd July 2019

Morning Round Up

Ryanair reports strong traffic numbers

Ryanair reported another month of strong passenger growth in June. Total passenger numbers grew by 13% to 14.2m with a 97% load factor. This is particularly impressive given the weaker demand, over supplied market backdrop. The sector continues to face difficulty, notably from weaker UK demand and oversupply in Germany. We expect airlines within the sector to post underwhelming results this quarter as fares remain under pressure. As a result share prices will suffer. Inevitably, negative cash flow from unprofitable airlines will lead them to collapse, supporting the larger players (particularly Ryanair). However, this is unlikely to occur over the summer period. We maintain a 12m price target of €12.50.

NTMA release its half year report

The National Treasury Management Agency (NTMA) released its mid-year update and published its 2018 Annual Report yesterday. Management at the agency reported elimination of the debt "chimneys", which at their peak were €60 billion over the period 2018 and 2020, should contribute to a more stable future funding requirement. The report also noted a favourable yield environment contributing to significant reduction in the State's interest bill. The projected interest bill for the State this year is €5bn, falling to €4.5bn next year as the yield on the Irish 10 year fell to 0.17% at the end of June. This represents a c. €3bn lower debt servicing burden than its peak in 2014.

Minister of Finance, Pascal Donoghue, commented that the State was not a long-term shareholder in the Banking sector, "So we will continue to monitor what could happen and what is happening, with a view to looking at the right opportunity to reduce our shareholding.". The Minister also commented on the banker pay cap and the impact it is having on retaining senior management in the wake of Bank of Ireland CEO, Andrew Keating, exiting his role in favour of CRH.

Trump turns to Europe with tariff strategy

The office of US trade proposed a list of "additional products for tariff countermeasures in response to harm caused by EU aircraft subsidies" on Monday. The list covers an estimated \$4bn in goods, including wines, whiskeys and cheese. The news comes as global equity markets rally on the back of progress between the US and China, who have reopened trade talks. The impact of a prolonged trade war between the US and Europe would produce a significant headwind for European economic growth. However, we don't see this trade war escalating prior to the US resolving its negotiations with China.

Italian 10 year yield drops on government budget commitments



Source: Bloomberg, CF Research July 2019

Key Upcoming Events

05/07/2019 US Non Farm Payrolls

Market View

European markets are flat this morning as the initial optimism following the trade truce faded and Trump now sets his sights on Europe. The US is set to be flat on open this afternoon. Safe have assets have gained following yesterdays sell off. Gold, treasuries and the yen have all strengthened. The Italian 2 year yield dropped below 0% for the first time since May 2018 following commitments from the government to keep the 2019 budget deficit to 2%. The pound has continued to weaken (EURGBP 0.895) as Johnson and Hunt clash on Brexit issues. OPEC production cut extensions have kept oil prices steady (WIT at \$59).

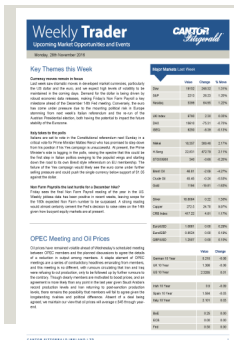
Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26850	117.47	0.44%	14.53%
S&P	2971	22.57	0.77%	18.25%
Nasdaq	8091	84.92	1.06%	21.94%
Nikkei	21730	24.30	0.11%	8.69%
Hang Seng	28543	332.94	1.17%	11.72%
Brent Oil	66	-0.11	-0.17%	20.72%
WTI Oil	59.05	-0.04	-0.07%	30.04%
Gold	1393	8.87	0.64%	8.62%
€/\$	1.1291	0.00	0.04%	-1.53%
€/£	0.8951	0.00	0.25%	-0.43%
£/\$	1.2615	0.00	-0.21%	-1.09%

	Yield	Change
German 10 Year	-0.36	0.00
UK 10 Year	0.802	-0.04
US 10 Year	2.0119	-0.02
Irish 10 Year	0.145	0.00
Spain 10 Year	0.317	-0.02
Italy 10 Year	1.87	-0.0970

Source: Bloomberg, CF Research July 2019

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Issuer Descriptions: (Source: Bloomberg)

Historical Recommendation:

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