

Tuesday, 13th August 2019

Morning Round Up

Henkel AG falls after cutting guidance

Henkel, the German chemicals company, fell by 5.5% this morning after posting an underwhelming set of Q2 results and cutting its guidance for 2019. Both top and bottom line metrics came in below expectations. Revenue fell by -0.4% to €5.12bn (vs expectations of €5.24bn). Adjusted net income fell by -9.2% to €622m (vs €640m). EPS fell by 9.5% to €1.43 (vs 1.46). Henkel is suffering from declining auto demand globally and stiffer competition in the beauty and washing detergents markets. A price war has now erupted in beauty and washing detergents in both Europe and North America, leading the CEO, Hans Van Bylen, to allocate an additional €300m for marketing. FY19 guidance was downgraded to 0% -2% growth this year from 2% - 4%. This marks another Q2 profit warning from the German Auto/Chemical sectors following BASF and Continental a few prior.

Singapore cuts growth outlook

Singapore has cut its forecast for economic growth to 0% -1% this year down from 1.5% - 2.5%. As a small open economy, Singapore is highly sensitive to both global growth and trade. This has meant the on-going trade war between the US and China has stifled investment and exports this year. Exports fell in June to their second worst rate since the global financial crisis 10 years ago. Its Q2 GDP figures revealed the country contracted by 3.3% on an annualized basis last quarter.

Global bond yields continue their decline

Escalating trade tensions, slowing economic growth and expected central bank stimulus has seen bond yields decline sharply over the past month to record lows in Europe and the US. In Europe, 13 countries (including Ireland) 10 year yields have fallen into negative territory, meaning these countries can effectively be paid for borrowing money. The German 10 year is now at its lowest ever level at -0.61bp. In the US, the 30 year treasury bond approached an all time low. The yield on the long dated bond fell by 14bps on Monday to close in on record low of 2.08% (from 2016). The US 10 year has now fallen by c.40bps points in just eight trading days to 1.62%. This means the inversion of the 3m 10 year curve has reached -36bps, its lowest since 2007. The move in global government bonds is sending a clear signal to the rest of the market, global growth will continue to decline and recession may be coming sooner than expected.

Negative 10 year yielding European countries

Region	Security	Yld	3M Chg
Switzerland	SWISS 0 06/22/29	-1.028	-64.0
Germany	DBR 0 08/15/29	-0.615	-54.3
Denmark	DGB 0 1/2 11/15/29	-0.581	-59.7
Netherlands	NETHER 0 1/4 07/15/29	-0.492	-60.5
Austria	RAGB 0 1/2 02/20/29	-0.361	-59.7
Finland	RFGB 0 1/2 09/15/29	-0.350	-50.2
Slovakia	SLOVGB 3 5/8 01/16/29	-0.323	-76.2
France	FRTR 0 1/2 05/25/29	-0.311	-64.0
Sweden	SGB 0 3/4 11/12/29	-0.306	-49.5
Belgium	BGB 0.9 06/22/29	-0.263	-69.3
Slovenia	SLOREP 1.1875 03/14/2	-0.168	-71.8
Latvia	LATVIA 1 1/8 05/30/28	-0.117	-61.4
Ireland	IRISH 1.1 05/15/29	-0.038	-54.9

Source: Bloomberg, CF Research August 2019

Key Upcoming Events

01/09/2019 US China Tariff increase

Market View

Stock markets fell this morning as political uncertainty in Hong Kong and Argentina added further negativity to an already fragile market. Cyclical stocks have continued to lead this decline with Financials and Industrials two of the worst performing sectors in the index. Global government bond markets have continued to outperform with yields hitting record lows in a number of countries. Other safe haven assets including the Japanese yen and Gold have strengthened further. On the data front, inflation from Germany came in as expected. Investors will be watching the German ZEW Economic Sentiment Index later this morning.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25898	-389.73	-1.48%	11.02%
S&P	2883	-35.56	-1.22%	15.01%
Nasdaq	7863	0.00	0.00%	18.51%

Nikkei	20455	-229.38	-1.11%	2.20%
Hang Seng	25291	-533.44	-2.07%	-2.15%

Brent Oil	58.45	-0.12	-0.20%	8.64%
WTI Oil	54.84	-0.09	-0.16%	20.77%
Gold	1525	13.41	0.89%	18.88%

€/\$	1.1191	0.00	-0.21%	-2.41%
€/£	0.9281	0.00	-0.05%	3.24%
£/\$	1.2058	0.00	-0.15%	-5.46%

	Yield	Change
German 10 Year	-0.612	-0.02
UK 10 Year	0.467	-0.02
US 10 Year	1.6352	-0.01

Irish 10 Year	-0.021	-0.02
Spain 10 Year	0.222	-0.01
Italy 10 Year	1.71	0.0050

Source: Bloomberg, CF Research August 2019

Tullow Oil - Guyana drilling a success

Closing Price: £2.14

News

Tullow Oil released an update yesterday morning on their Guyana JETHRO-1 drilling well result which exceeded expectations. The ORINDUIK field, 60% owned by Tullow, is located 120km North East of Georgetown and adjacent to the oil rich hot spot known as Stabroek (Exxon's block). The licenses are known for its shallow water, high quality oil and good government relationships. The Tullow operated field is estimated to have 2.5Bbn of gross un-risked resources.

The Jethro -1 well result implies a significant discovery with minimal appraisal required. The Joe-1 well due to be drilled over the coming months is also materially reduced in terms of risk. A further well will be drilled at the non-operated Carapa field later this year.

The cost of drilling the Jethro -1 well was c.\$30m – in line with expectations. The additional two wells left to drill this year are expected to cost Tullow c.\$31m.

Comment

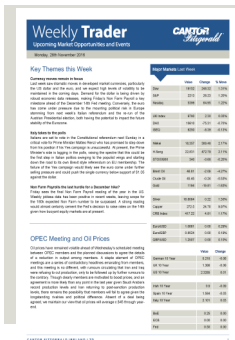
Having recommended Tullow as a “Buy” recently (see weekly trader [here](#)) between £1.90-£2.10 on the basis that Guyana results should be a catalyst, we are delighted that this has played out with the drilling result ahead of expectations.

This positive drilling update follows Tullow's FY 2019 result last month within which they reported that operating costs per barrel declined by 18% to \$9/boe. (Please see latest comment [here](#))

Our fair value of £2.50 now is now under review with an upward bias given the successful outcome at Jethro. Tullow Oil shares still offers upside. The positive result could see speculation of Exxon being a possible acquirer of Tullow over medium term given their interests in offshore Guyana.

Darren McKinley, CFA | Senior Equity Analyst

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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 changed our rating on the 15/07/2019 to Outperform from Hold

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