Daily Note
Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 30th August 2019

Morning Round Up

Fiscal stimulus needed in Europe
European Central Bank policy makers appear divided this week after comments from committee members show opposing views on the return of bond purchases. The Dutch governor Klaas Knot stated that the economic outlook isn't weak enough to warrant the resumption of bond purchases; with Sabine Lautenschlaeger, an executive board member, stating that quantitative easing should only be used as a last resort and the council should retain this firepower. Other board members agree that speculation over a large stimulus package has been overdone and does not reflect the latest data. These comments come just two weeks before the Governing council of the ECB is set to meet to discuss the Euro-zone economy. On the dovish side Olli Rehn, the Finnish Governor, has called for an "impactful" package that overshoots expectations. With the ECB likely to revise down its inflation target due to weakness in CPI data, lower anticipated oil prices and declining inflation expectations, a large stimulus package would be warranted in September.

These conflicting views will give Mario Draghi and his executive board something to mull over as they prepare proposals for the September 12th meeting. Draghi knows that if they fail to deliver a large stimulus package, they risk tightening financial markets and worsening the already prolonged slowdown. However, overshooting the stimulus package too early would mean they don't have adequate ammunition to stave off any future shocks that could send the Eurozone economy into recession.

Brexit talks to step up as the risk of a no deal grows
The UK'S Brexit ream will meet with its EU counterparts twice a week during September as both sides attempt to iron out a deal. However, with both sides hardening their respective stances on the Irish backstop, hopes of concrete progress are beginning to fall. Johnson's latest move to suspend parliament has led to considerable backlash both from his fellow MP's and the broader public. The tight timeline has led Johnson's opponents to take action to block a no-deal exit as early as next week. Opposition parties are expected to issue a joint call for a vote on Johnson's plan to prorogue parliament.

Conte prepares to return to government in Italy
Giuseppe Conte will lead the new coalition of the anti-establishment Five Star Movement and the centre-left Democrats after the coalition between Five Star and the Lega Nord came to end. The new government , which involves two parties with more closely aligned policies, should provide some stability in Italian politics. The move has been welcomed by financial markets with Italian bond yields dropping to just 64bps, nearly a 3% fall in less than 12 months.

One year history of the Italian 10 year yield

Source: Bloomberg, CF Research August 2019

Key Upcoming Events

01/09/2019 US China Tariff increase
06/09/2019 US Nonfarm payrolls
09/09/2019 UK Parliament Prorogued
12/09/2019 ECB Governing Council

Market View

Stock markets have opened strongly again today as investors become a little more positive on recent trade developments. China most recent indication that it will not retaliate on Trumps latest round of tariffs has helped the market. All sectors in Europe are in positive territory this morning with the tadeonal cyclical companies leading the way higher. Economic data released this morning was relatively mixed. While Japanese Industrial production was stronger than expected , Retail Sales in both Japan and Germany dropped unexpectedly. The market will be looking toward inflation data from Europe and the US later today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26362	326.15	1.25%	13.01%
S&P	2925	36.64	1.27%	16.66%
Nasdaq	7973	116.51	1.48%	20.17%
Nikkei	20704	243.44	1.19%	3.45%
Hang Seng	25725	21.23	0.08%	-0.47%
Brent Oil	60.65	-0.43	-0.70%	12.73%
WTI Oil	56.28	-0.43	-0.76%	23.94%
Gold	1526	-2.13	-0.14%	18.95%
€/$	1.1039	0.00	-0.16%	-3.73%
€/£	0.9069	0.00	-0.08%	0.89%
£/$	1.2171	0.00	-0.08%	-4.57%

	Yield	Change
German 10 Year	-0.696	0.00
UK 10 Year	0.451	0.02
US 10 Year	1.5281	0.03
Irish 10 Year	-0.077	0.01
Spain 10 Year	0.113	0.01
Italy 10 Year	0.97	-0.0160

Source: Bloomberg, CF Research August 2019

Grafton - Solid result but guidance impacted by Brexit. Raised to "Hold” Closing price £6.82

News
Grafton Group reported revenue £1.48bn (+2% YoY), operating profit of £93m (+6% YoY – impacted by IFRS 16) and earnings per share of 32.6p (+6% YoY). Dividend was raised by 8% to 6.5p and balance sheet strengthened further. Group operating margin increased by 20bps to 6.8%. The pace of growth has slowed in UK and Ireland with Brexit viewed as the “Elephant in the room”. The poorly performing Belgium business has been sold for £11m which will result in a non-cash charge of £26m. Grafton completed the acquisition of Polvo in Netherlands in July, adding 51 branches.

Gavin Slark, Chief Executive Officer commented: "We made good strategic and operational progress in the first half of 2019 which supports the ongoing improvement in the underlying quality of our business. Despite the uncertainty in the U.K., the Group continues to benefit from the strength of Selco's market position and our higher returning, growth businesses in Ireland and The Netherlands. Our focus remains on delivering growth in shareholder value and a great experience for our customers and colleagues."

Grafton’s core UK merchanting segment grew revenue by 1.4% in the period while adjusted operating profit declined by 3%. Volumes grew by 0.8% but cost inflation modestly weighed on profitability. Leyland and Selco contributed positively to the group. Irish merchanting reported 7.4% revenue growth and 12.5% growth in operating profit. Netherlands and Irish retail (Woodies) reported mid-single digit revenue growth and high single digit profit growth.

Average daily like-for-like Group revenue increased by 3.0 per cent in July comprising growth of 1.4 per cent in UK Merchanting, 5.9 per cent in Irish Merchanting, 0.5 per cent in Netherlands merchanting, 16.9 per cent in retailing and a decline of 0.1 per cent in Manufacturing.

Comment
Grafton delivered a solid result, as indicated by its 10% increase in operating cash flow, and we are encouraged that like for like sales have improved in July to 3%, having contracted in May/June. Albeit, guidance is for continued softness with a hard Brexit likely to have a imminent negative effect on the business.

Having recommended Grafton as a sell in May at much higher levels, this result would give us much more confidence that Grafton now looks attractive if it were not for the risk of a hard Brexit. In a note released in July we said that we thought Grafton could trade down toward £6.50 as sentiment on Brexit weakens. It closed yesterday at £6.82. Having previously recommended to reduce, we raise our recommendation to “Hold” as we see the 50% chance of Brexit increasingly more priced in and see merit in the sale of the Belgium business. A hard Brexit would likely see the stock trade down below £6, and a deal would likely see it trade back up toward £8.25 quiet quickly.

Darren McKinley, CFA | Senior Equity Analyst

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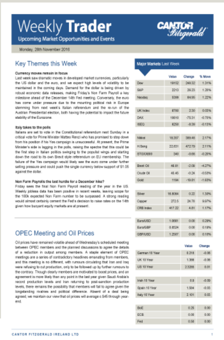

Weekly Trader

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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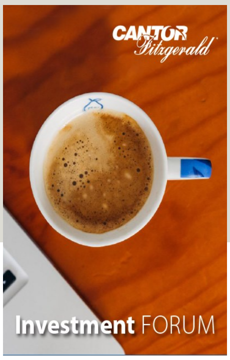

Investment Forum

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Grafton Group: Grafton Group PLC manufactures and retails building supplies

Historical Recommendation:

Grafton Group: We raised our recommendation to Hold on 30 August 2019

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