

Thursday, 03rd October 2019

Morning Round Up

WTO ruling sees US introduce retaliatory tariffs

Last night the World Trade Organisation (WTO) ruled against the EU in relation to aircraft subsidies paid to Airbus, paving the way for the US to impose retaliatory tariffs on as much as \$7.5 billion worth of European exports. Shortly after the ruling the Trump administration announced a 10% tariff on large civil aircraft; with 25% levies on a range of other items including wine, olives, cheese, pork products, butter, and whiskey. The tariffs primarily target goods from the France, Italy, Spain and the UK – the four countries deemed most responsible for providing the subsidies to Airbus. It will be a relief for Irish whiskey brewers in the Republic as only Irish whiskey distilled in Northern Ireland will be subject to the tariffs. While Donal Trump took credit for the “win” the case was brought to the WTO before the Trump administration took office. This announcement will further reduce confidence in the manufacturing sector where the Eurozone is seeing the steepest contraction since October 2012 as new orders and purchasing fell sharply during September.

Boris Johnson submits backstop alternative to the EU

Prime Minister Johnson address to conservative party members yesterday, set out the governments proposal on an alternative to Irish Backstop, which gleaned the support of both the DUP and ERG. The European reaction was somewhat more muted, which could be interpreted as a positive as it was not dismissed outright. The proposal includes five key elements including a commitment to the Belfast Agreement, commitment to ling-standing areas of UK/Ireland, the potential creation of an all-island regulatory zone on the Island of Ireland, the all-island regulatory zone would be subject to consent from the Northern Ireland Executive and Assembly and with NI part of the UK customs territory at the end of the transition period. The EU are expected to respond to the proposal today, with expectations that it does not go far enough to allay the concerns of a potential hard border in the future. Sterling weakened marginally throughout the day but with traders likely waiting for more clarity from the EU prior to changing positioning.

Mixed US auto sales

Tesla reported sales of 97,000 cars in Q3 2019 (+2% sequentially) and is second quarter in a row to report sequential growth. Leasing activity increased. Whilst orders from Europe were strong, the total sales number was less than the 100,000 expected. Tesla stock fell yesterday and is down 35% from recent highs to trade on 71x 2020 earnings. Ford reported a 4.9% decline in US sales to 580,251 units. Truck sales hit a record 309,920 units in Q3 with Ford Transit sales up 21%. Ford SUV sales declined by 10% to 193,100. Ford US car sales declined by 29.5% to 77,231 units. GM sales increased by 6.3% to 738,638.

Mixed results from the European retail sector

H&M reported Q3 results with the fashion retailer reporting 12% sales growth in Q3 and profit increase by 25%. Online sales grew by 30%. H&M shares are trading up by 49% year to date and offer a 5% yield. The outlook for Ted Baker isn't so rosy. It's shares plunged by c.25% after reporting that weaker than expected interim results and that H2 has started slowly. For the interim Ted Baker reported that revenue declined by 1% and that the group went into the red by reporting a £2.7m loss for the first half period (down from a £25m gain the year before). EU/UK sales fell by 4%, US sales rose by 3%, online sales declined and ROW sales declined by 15%. With a market cap of £265m, founder Ray Kelvin has had better years having been forced to resign as CEO and now nurses £62m losses on his stake in Ted Baker year to date. It may not be long before a suitor comes along given the strength of the brand.

Datalex appoint Sean Corkery as permanent CEO

Source: Bloomberg, CF Research October 2019

Key Upcoming Events

17/10/2019 ECB Leaders Summit
31/10/2019 Brexit Day

Market View

Equity markets have opened slightly higher this morning after a heavy sell off yesterday. The broader European market finished Wednesday down 2.5%. The FTSE 100 and the CAC 40 were among the worst performers down 3.2% and 2.9% respectively. The sharp decline was driven by the combination of poorer economic data, Brexit and the news that the US would be introducing \$7.5bn worth of tariffs on selective European goods. US markets were also weak, declining by 1.8%. Bond yields have moved lower with the US ten year back at 1.59%. Looking ahead to today ISM Non-Manufacturing PMI data will be an important reading.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26079	-494.42	-1.86%	11.79%
S&P	2888	-52.64	-1.79%	15.19%
Nasdaq	7785	-123.44	-1.56%	17.33%

Nikkei	21342	-436.87	-2.01%	6.63%
Hang Seng	26110	67.62	0.26%	1.02%

Brent Oil	57.48	-0.21	-0.36%	6.84%
WTI Oil	52.39	-0.25	-0.47%	15.37%
Gold	1503	3.36	0.22%	17.18%

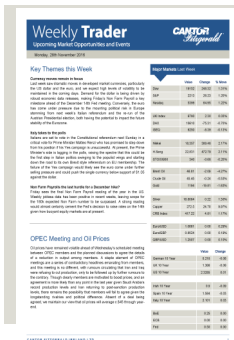
€/\$	1.0959	0.0000	0.00%	-4.43%
€/£	0.8903	-0.0006	-0.06%	-0.97%
£/\$	1.231	0.0007	0.06%	-3.48%

	Yield	Change
German 10 Year	-0.578	-0.032
UK 10 Year	0.461	-0.042
US 10 Year	1.579	-0.021

Irish 10 Year	-0.031	-0.031
Spain 10 Year	0.14	-0.032
Italy 10 Year	0.864	-0.037

Source: Bloomberg, CF Research October 2019

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