The Week in Perspective

2nd November 2018

Market Roundup

October was a bad month for UK investors, with the FTSE100 down by 6.0% despite a rally in share prices this week. Over in the US, however, markets ended the month in the green, even though it had experienced some of its most volatile trading days in years. The UK's blue-chip index rose by 1.2 % on Monday, clawing back above the 7,000 mark, while the FTSE250 gained 1.2%. The rise was against the backdrop of the Budget where Philip Hammond declared that austerity was coming to an end, and announced a smattering of tax cuts.

On the corporate front HSBC rose by 4.7% after a solid earnings report. Tuesday saw a small gain for UK stocks, but sentiment continues to be suppressed by the looming possibility of a no-deal Brexit. Housebuilders did well after the Chancellor announced an extension to the Help-to-Buy scheme in the budget. Shares in Taylor Wimpey were up 3.5%, Berkeley Group by 3.1% and Barratt by 2.4%. The market was up by a healthy 1.3% on Wednesday, although retailers had a bad time, with Next shares falling 1.9% as it reported slowing sales growth. The news came after a disappointing retail sector report by the CBI (see below). Shares fell on Thursday due to a strong pound hitting oil stocks, but there were some strong corporate performances. BT shares rose by 8.6% after it reported a 24% increase in first-half profits.

In early trade on Friday, shares were heading up.

Company Focus: BP

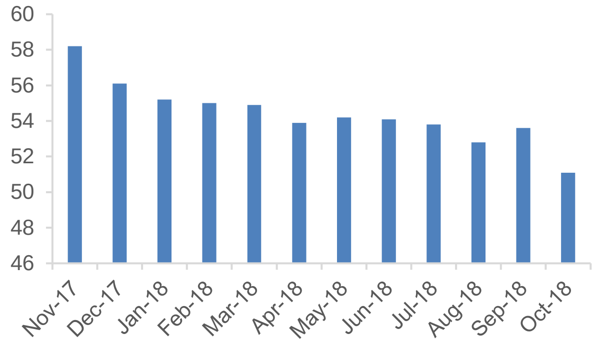
BP's profits more than doubled in the third quarter as higher oil prices helped the company to soundly beat expectations. Underlying replacement cost profits – the headline measure of profitability in the oil industry – came in at US$3.8bn (£3bn) in the three months to 30 September. This compares with $1.9bn in the same period last year.

BP's oil and gas production division was the star performer, though the company did well in every part of its business. Revenue jumped to $80.8bn from $60.8bn a year earlier. The company said its Thunder Horse Northwest expansion project in the Gulf of Mexico and the Western Flank B project in Australia had begun production in October, ahead of schedule.

It expected production to grow further in the next three months thanks to the shale oil and gas fields it bought from the Anglo-Australian miner BHP for $10.5bn. BP said it will pay for the acquisition out of cash if oil prices stay high rather than through selling shares.

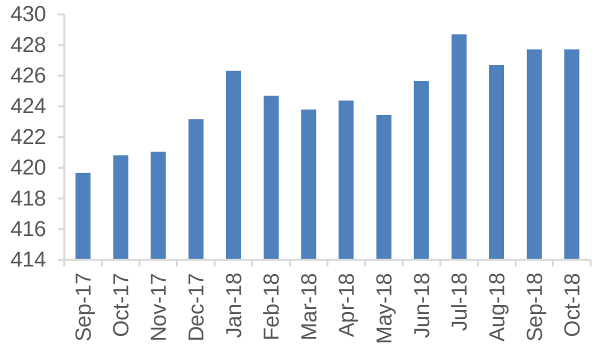
The company also announced a dividend of 10.25 cents per share, after raising it for the first time in four years last quarter.

Chart 1: Monthly UK Manufacturing PMI



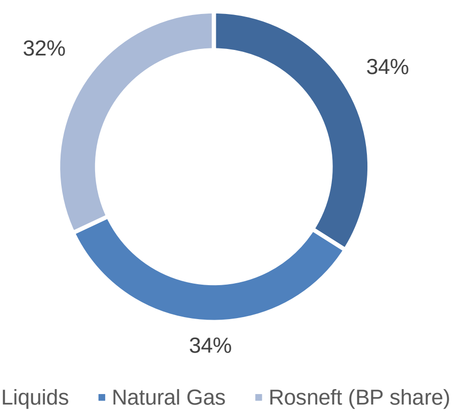
Source: Bloomberg Data at 01/11/2018

Chart 2: Nationwide Average UK House Price Index



Source: Nationwide Data at 01/11/2018

Chart 3: BP – Upstream production (kboepd) – 30/09/2018



Source: Brewin Dolphin client note Data at 01/11/2018

Economic Roundup

Brexit uncertainties continue to overshadow the economy, according to various reports released this week.

Consumer credit growth has slowed to its weakest pace in three years, according to data from the Bank of England. It said growth in loans and credit card debt rose by 7.7% on an annualised basis in September, down from a peak of 10.9% in November 2016. At below a growth rate of 8%, consumer credit is expanding at below its average pace for the past 20 years – the first time that has happened since 2015. However, total consumer debts still stand at a record £215.2bn. Banks have clamped down on some credit card lending, increasing minimum repayments and cutting limits on borrowing. In addition, with concerns about household finances kicking in and Brexit uncertainties, demand for credit is also said to be slowing. Mortgage lending was also weaker. The number of approvals for purchases down by 1.2% during the month, while remortgages were down by 5.5%.

More bad news from the high street in October. The Confederation of British Industry (CBI) Distributive Trades Survey showed that 26% of companies had reported an increase in sales compared to last year, but 21% reported a decline. This resulted in a net balance of +5%, way short of the forecast for +20%. It was also sharply down on September's figure of +23%. Analysts said it was further evidence of the consumer tightening their belts after splashing out in the hot summer. Echoing the fall, consumer confidence reportedly fell in October amid Brexit-related worries. The closely-monitored GfK consumer confidence index fell to -10 in the month. Major purchases were down, as were expectations for peoples' personal financial circumstances and for the overall economic outlook.

The UK manufacturing sector had another poor month in October. The IHT Markit manufacturing purchasing managers' index produced the sharpest slowdown in two years. The reading of 51.1 was down from 53.6 in September and below forecasts for a reading of 53. IHS Markit said the performance was down to trade war worries and Brexit uncertainties.

Illustrating the risks to global growth, a survey of Chinese manufacturing activity this week showed that it had fallen to its lowest level in two years, and new orders had fallen for five months in a row. The disappointing data from China's manufacturing PMI showed a reading of 50.2 in October, from 50.8 in September. New orders fell sharply, and economists now expect the Chinese government to ramp up stimulus to prevent the economy deteriorating further. The next day, the unofficial Caixin/Markit manufacturing PMI came in better than expected, with a reading of 50.1 compared to predictions of a reading below 50, which would have shown the sector to be contracting. The news helped lift Asian markets.

Back in the UK, the housing market is showing continued signs of weakness. Nationwide Building Society's October index showed that the rate of growth had fallen to its lowest since 2013, with average prices up by just 1.6% year on year – down from 2% in September.

Nationwide's chief economist Robert Gardner said that the uncertain economic outlook and squeezed household finances had dampened demand. He forecast house prices to rise by just 1% on average over 2018 as a whole.

Company announcements that caught our attention this week

Date	Company	Comment
31/10/2018	**Airbus**	Airbus announced a sharp year-on-year rise in profits on Wednesday, but cautioned it was having major supplier problems. Europe's largest aerospace group said that meeting its target to deliver 800 aircraft by the end of the year was proving "a greater stretch" due to the late availability of engines in the first half of 2018 and "some internal industrial challenges". "Even though we delivered more aircraft than a year earlier, we still have a lot to do to meet our commitments," said Airbus chief executive Tom Enders. Reported earnings before interest and tax (EBIT) were €2.7bn (£2.4bn) in the first nine months of this year, up from €1.7bn in the same period a year earlier. Consolidated revenues for the nine-month period were €40.4bn, up from €38bn the previous year.
30/10/2018	**Reckitt Benckiser**	Reckitt Benckiser reported a disappointing set of third quarter sales, after manufacturing problems at an infant formula factory left it unable to meet demand. The consumer goods group announced quarterly sales of £3.1bn in the three months to 30 September, up 2% on a like-for-like basis compared with a year ago. Rakesh Kapoor, chief executive, said: "The quarter was impacted by a temporary manufacturing disruption at our European IFCN plant. This affected sales to a number of markets, occurred during a period of unusually high market growth and before our new facilities in Australia were operational and able to diversify our supply chain." The disruption wiped £70m off sales, the company said. However, the group's outlook for the year is unchanged with a net revenue growth target of 14-15% implying like-for-like sales of 2-3%.

Key Company Diary Dates

Tue 06 Nov	**Associated British Foods**	Final results
Tue 06 Nov	**Imperial Brands**	Final results
Wed 07 Nov	**Marks & Spencer Group**	Half-year results
Thu 08 Nov	**National Grid**	Half-year results
Thu 08 Nov	**AstraZeneca**	Quarterly results

Economic highlights over the next week

Thu 08 Nov – US Interest Rate Decision – Economists expect the Federal Reserve to defer another US rate increase until December. The target range for the federal funds rate was increased to 2% to 2.25% in September.

Fri 09 Nov – UK GDP – The Office for National Statistics will release its first estimate of growth in the British economy between July and September – the third quarter. The economy grew by 0.4% in the three months to June.

Fri 09 Nov – Balance of Trade – The total UK trade deficit narrowed £4.7bn to £2.8bn in the three months to August as exports increased by more than imports for both goods and services.

Index Movements*

Index	Value	%Change
FTSE 100	7,004.10	-0.33
FTSE 250	18,531.53	-2.27
AIM	973.16	-3.68
Dow Jones	24,984.55	-1.56
S&P 500	2,705.57	-2.28
Hang Seng	24,994.46	-1.81
Nikkei 225	21,268.73	-6.13

Currency Movements*

Currency Pair	Value	%Change
£:$	1.30	0.01
£:€	1.14	0.01
£:¥	146.33	0.01

Best & Worst performing sectors (rel. to FTSE 350)*

Sector	%Change
Basic Resources	3.85%
Insurance	1.85%
Chemicals	1.70%
Financial Services	-0.06%
Technology	-0.20%
Oil & Gas	-1.39%

Best & Worst FTSE 100 performing stocks*

Company	%Change
MELROSE INDUSTRIES	13.05%
Antofagasta	9.81%
BT Group	8.61%
RIGHTMOVE	-4.30%
Reckitt Benckiser Group	-5.28%
British American Tobacco	-5.28%

*Weekly movements up until close of business Thursday