BREWIN DOLPHIN

The Week in Perspective

27 July 2018

Market Roundup

Ocado led the FTSE 100 risers on Monday, climbing 5.5% to a record high after management met US investors.

WPP also added 3.1% on news that the advertising group was in talks to sell a minority share in its China division.

But airlines were down after Ryanair reported a 20% fall in first-quarter profits, blaming higher costs and strikes. The FTSE 100 was off 0.3%.

On Tuesday, the FTSE 100 was up 0.7% on news of economic stimulus plans in China, with miners the standout gainers. BHP Billiton, Anglo American and Glencore were all up by more than 5%.

Tuesday's rise was reversed on Wednesday amid fears of US-EU trade tensions ahead of President Trump's meeting with Jean-Claude Juncker. Housebuilders outperformed on predictions the government's Help to Buy scheme would continue. Taylor Wimpey rose 1.8% and Barratt Developments added 1.3%.

On Thursday, Royal Dutch Shell fell 3.6% on weaker-than-expected second-quarter earnings (Company Announcements, below).

But Astra Zeneca rose 4.2% to a record high on well-received interim results. And British American Tobacco led the blue-chip risers with a 5.1% gain after in-line interim results and reassuring guidance.

Meanwhile in the US, Facebook shares plunged 19% after the tech giant warning of slowing growth. The fall wiped $120bn from the firm's market value, the biggest one-day loss in US stockmarket history.

The FTSE 100 was up in early trading on Friday.

Company Focus: ITV

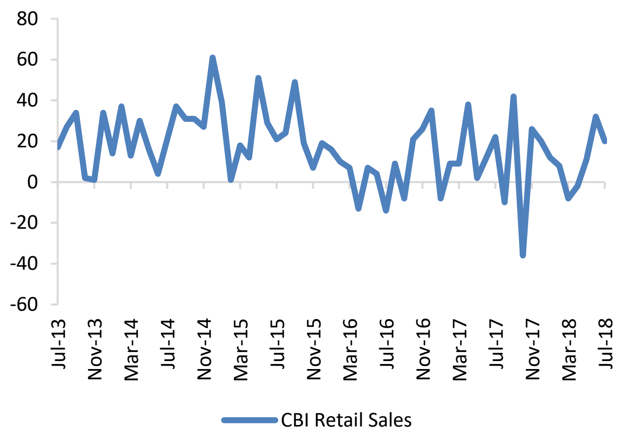
ITV's new chief executive Carolyn McCall said on Wednesday that she wanted the broadcaster to "be more than TV" as the company looks to head off competition from the likes of Netflix and Amazon.

The comment from McCall, former boss of EasyJet, came as ITV unveiled first-half results which were largely ahead of consensus. Total advertising revenues grew by 2% to £890m in the six months to 30 June, in line with expectations. Total revenues from Studios, its production arm, increased by 16% to £803m. Online revenues, though still relatively small, were up 48%.

ITV expects a 1% increase in ad revenues over the first nine months of the year, and 90% of 2018 target revenues for Studios are already booked. This has given the board confidence to announce that dividends will not be less than 8p per share for this year and next, giving investors a dividend yield of more than 5%.

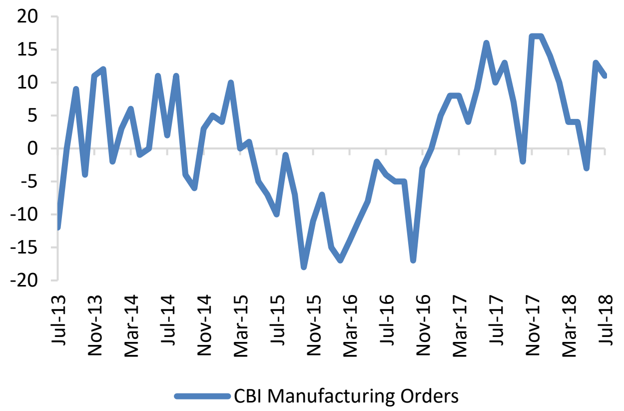
The new CEO's strategy to deliver growth is focused on strengthening the ITV's position as an integrated producer and broadcaster, and growing its UK and Global Productions division. The strategy also involves plans to grow the group's direct-to-consumer business, which includes competitions and live events.

Chart 1: UK Retail Sales Volumes (% survey balance)



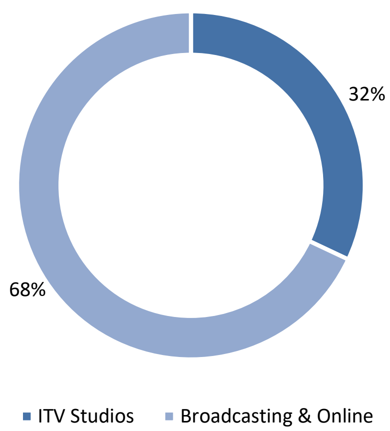
Source: Bloomberg Data at 27/7/2018

Chart 2: UK Manufacturing Orders (% survey balance)



Source: Bloomberg Data at 27/7/2018

Chart 3: ITV, Operating Profit by Division



Source: Brewin Dolphin client note Data at 27/7/2018

Economic Roundup

The US economy grew at an annual rate of 4.1% in the second quarter of this year, its fastest rate of expansion since 2014.

The acceleration in growth follows the US GDP expanding at an annual rate of 2.2% in the first quarter - and after tax cuts agreed last year.

The US Bureau of Economic Analysis said the second-quarter surge was fuelled by increases in consumer spending, business investment and government expenditures.

Meanwhile, President Trump proclaimed a “new phase” in trade relations between the US and EU following a meeting with European Commission president Jean-Claude Juncker. A joint statement after the meeting said the US and EU would “work together towards zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods".

In the UK, the CBI business organisation said the recent heatwave had boosted retail sales, but warned that sales growth could be cooling off.

In the CBI’s monthly distributive trades survey, 32% of retailers said sales volumes were up in July compared with a year ago, while 12% said volumes were down - giving a balance of 20%.

Most retail subsectors saw higher volumes. Footwear & leather, recreational goods and department stores performed well, though clothing and furniture & carpets saw sales fall.

However, July’s 20% balance was down from 32% in June. And while 14% of survey respondents expect sales volumes to increase next month, 14% expect a decrease, giving a balance of 0%.

Alpesh Paleja, CBI principal economist, said: “While the heatwave has boosted retail sales in recent months, we may be seeing some early signs of a cooling off, with retailers expecting no growth in sales next month.”

He added: “The long-term challenges facing the retail sector are significant. Continually subdued real wage growth means that households are still feeling the pinch, and retailers are still grappling with deeper structural issues, such as digital disruption.”

UK manufacturing growth accelerated to its strongest pace in a year, according to a separate CBI survey.

In the CBI’s quarterly industrial trends survey, 41% of firms said output volume was up over the past three months, while 14% said output was down, a balance of 27% - up from 13% the previous quarter.

However, investment intentions deteriorated significantly in the three months to July, and growth in output and total orders are expected to slow moderately in the three months to October.

Rain Newton-Smith, CBI chief economist, said: “The pick-up in output growth is good news and with new orders still running at a healthy rate, the near-term outlook for manufacturers remains reasonably bright.”

“Yet manufacturers are still in wait-and-see mode when it comes to their investment plans. Skills shortages are increasing and making it hard for businesses to invest in capital projects, particularly with ongoing uncertainty around the direction of Brexit talks.”

Company announcements that caught our attention this week

Date	Company	Comment
25/7/2018	**Royal Dutch Shell**	Royal Dutch Shell launched a $25bn share buyback programme but missed its second-quarter earnings targets. The oil giant said it will buy back up to $2bn of shares between now and October. The scale of further purchases will be subject to “progress with debt reduction and oil price conditions.” In the three months to 30 June, earnings on a current cost of supply basis were $4.7bn, up from $3.6bn in the same quarter last year. However, this fell short of analyst forecasts of $5.9bn. Higher expenses, particularly tax charges, offset higher energy prices in the Upstream and Integrated Gas divisions. Downstream suffered from lower trading profits. The group maintained its quarterly dividend at 47 cents per share.
24/7/2018	**Hammerson**	What started as a year of optimism for Hammerson directors turned to gloom, if not despair, by the end of April. The proposed acquisition of Intu was not looked on positively by some of its large shareholders and Hammerson withdrew its offer. Hammerson bosses also had egg on their face after rejecting out of hand Klepierre’s subsequent opportunistic bid. Hence keen interest in the group’s strategic review as it reported half-year results on Tuesday. Hammerson is planning to exit from retail parks, reduce its exposure to UK department stores from 38% to 28%, and high street fashion from 25% to 20%. It also plans to sell £1.1bn of assets to bring down debt and buy back £300m of shares. And the extension of Brent Cross shopping centre has been put on hold.

Key Company Diary Dates

Tue 31 July	**BP**	Quarterly results
Tue 31 July	**Centrica**	Half-year results
Wed 1 Aug	**BAE Systems**	Half-year results
Wed 1 Aug	**Lloyds Banking Group**	Half-year results
Thu 2 Aug	**Merlin Entertainments**	Half-year results

Economic highlights over the next week

Tue 31 July – **GfK Consumer Confidence** – In June, GfK's consumer confidence index was minus 9, down from minus 7 in May.

Wed 01 Aug – **US Interest Rate Decision** – Many economists expect the US Federal Reserve to increase interest rates two more times this year.

Thu 02 Aug – **UK Interest Rate Decision** – August's Monetary Policy Committee meeting is expected to see the Bank of England raise interest rates from 0.5% to 0.75% - the highest level since 2009.

Index Movements*

Index	Value	%Change
FTSE 100	7,663.17	-0.27
FTSE 250	20,768.61	-0.66
AIM	1,099.97	0.52
Dow Jones	25,527.07	1.85
S&P 500	2,837.44	1.17
Hang Seng	28,781.14	2.75
Nikkei 225	22,586.87	-0.78

Currency Movements*

Currency Pair	Value	%Change
£:$	1.32	0.01
£:€	1.13	0.01
£:¥	146.04	-0.01

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

Sector	%Change
Autos & Parts	5.19%
Basic Resources	2.46%
Personal & Household Goods	2.25%
Travel & Leisure	-1.86%
Utilities	-1.97%
Oil & Gas	-2.24%

Best & Worst FTSE 100 performing stocks*

Company	%Change
British American Tobacco	8.2%
Ocado	6.1%
Evraz	5.2%
Informa	-5.4%
SSE	-6.8%
Fresnillo	-9.5%

*Weekly movements up until close of business Thursday