



# The Week in Perspective

31 August 2018

## Market Roundup

UK shares finished slightly higher on Monday. The FTSE 100 gained 0.2% to 7,577, despite Chancellor Phillip Hammond’s warning that a no-deal Brexit would cost the UK £80billion and business and consumers digesting some alarming no-deal Brexit advisory notices from the government.

Mining stocks benefitted on the back of rising copper prices with Anglo American, Glencore, Rio Tinto and BHP all higher. Shares in house-builders were down on disappointingly low mortgage approvals data that emerged last Friday, suggesting demand is falling.

Tuesday saw UK shares rack up solid gains, with the FTSE100 up by 0.6%, helped by a fading pound. Miners were once again the main beneficiaries, but the market dropped sharply on Wednesday, down 0.7%, even though there were hints of a Brexit breakthrough. Reports that the EU was prepared to offer Britain a deal “unlike any other” sent the pound up in value, hurting the FTSE 100’s companies that earn much of their revenue in dollars. Thursday was another day in the red with the FTSE 100 down by 0.6% or 47.18 points to 7,516.03. In early trade on Friday, blue chips shares were down, a possible reaction to Donald Trump threatening to pull out of the World Trade Organisation, but Whitbread shares were up on news it is to sell its Costa Coffee chain for £3.9billion.

## Company Focus: Vodafone

Vodafone Group announced on Thursday that its Australian operation, Vodafone Hutchinson Australia (VHA), will be merged with TPG Telecom.

VHA is currently Australia’s third-largest mobile operator and TPG is one of the country’s largest interest service providers. The tie-up will create a new company worth AUS\$15bn (£8.4bn), with the scale to challenge larger mobile and broadband rivals in the Australian market. However, the immediate financial impact of the merger, which isn’t expected to complete until 2019, is expected to be small or negligible.

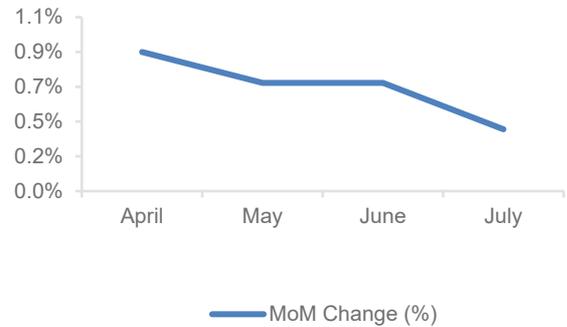
Nick Read, who will take over as Vodafone’s chief executive in October, said: “The combined listed company will be a more capable challenger to Telstra and Optus, and will be much better placed to invest in next generation mobile and fixed line services to benefit Australian consumers and businesses.”

VHA will hold a 50.1% majority stake in the new company, to be named TPG Telecom. That stake will be split evenly between the company’s current owners Vodafone and Hutchinson Telecommunications (Australia). Consequently, Vodafone will own 25.05% of the new entity.

Iñaki Berroeta, the chief executive of VHA, is expected to stay on as boss of the merged group, while TPG’s chief and chairman, David Teoh, is expected to become chairman.

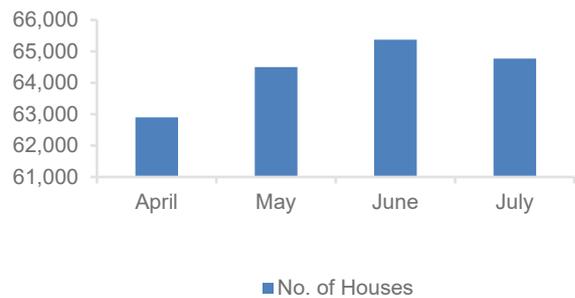
The deal remains subject to approvals from the Australian competition and overseas investment watchdogs.

Chart 1: UK Month-on-Month Consumer Credit Growth



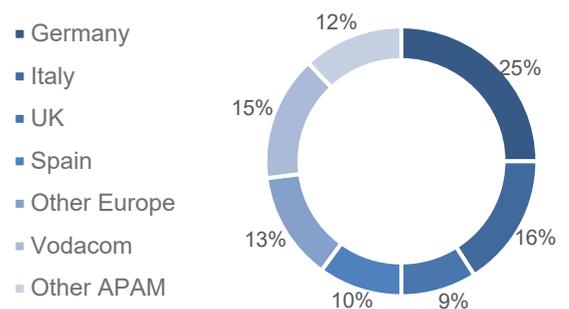
Source: Bank of England Data at 30/08/2018

Chart 2: Number of Mortgage Approved Houses in the UK



Source: Bank of England Data at 30/8/2018

Chart 3: Vodafone, 2016/2017 adjusted EBITDA



Source: Brewin Dolphin client note Data at 30/8/2018

## Economic Roundup

Fears over a no-deal Brexit sent the pound to the lowest level of the year against the dollar and euro on Tuesday, despite a series of technical notices issued by the government last week intended to assuage fears about the implications of departing the bloc without an agreement.

The pound hit levels as low as €1.099 on Tuesday but rebounded slightly on Wednesday. The currency is expected to remain under pressure until there is more clarity around Brexit.

Meanwhile, the failed US-China trade talks of last week indicated that the spat would continue, and analysts reported rumours that Trump is considering tariffs on a further \$200billion of Chinese imports.

Growth in UK consumer borrowing slowed abruptly in July, according to the Bank of England. It said overall credit growth slowed from 8.8% over the previous quarter to 8.5%. Some slowdown in unsecured credit growth will be welcomed by the Bank, which said it posed a threat to financial stability.

In addition, mortgage borrowing also fell, with approval for house purchases down to 65,000 from 65,600 in June – consistent with other data that suggests the housing market is slowing.

Economist Howard Archer said that the data reinforced suggestions that consumers were becoming more cautious: “Consumers have become relatively cautious in their borrowing while lenders have become warier about advancing unsecured credit. This is welcome news given the Bank of England viewed such credit growth as a ‘pocket of risk’”.

On Friday, Nationwide Building Society reported the biggest drop in house prices in six years. The average price had dropped to £214,745 in August, down 0.5% on the previous month. Annual growth slowed to 2 per cent from 2.5 per cent the month before.

Robert Gardner, chief economist at Nationwide said prices are still likely to rise by around 1 per cent this year.

“Looking further ahead, much will depend on how broader economic conditions evolve, especially in the labour market, but also with respect to interest rates” he said. “Subdued economic activity and ongoing pressure on household budgets is likely to continue to exert a modest drag on house price growth and market activity this year, though borrowing costs are likely to remain low.”

## Company announcements that caught our attention this week

Date	Company	Comment
28/8/2018	<b>Bunzl</b>	<p>First-half profit rose 4% at Bunzl, the business supplies company, boosted by acquisitions and strong growth in Continental Europe.</p> <p>The FTSE-100 group said revenue was up 5% to £4.3bn in the six months ended 30 June, compared with the same period last year. The group's interim dividend was 9% higher at 15.2p.</p> <p>With 85% of Bunzl's business outside the UK, currency movements, principally the strengthening of sterling against the US dollar, had a negative impact on growth rates at actual exchange rates. With the effect of currency fluctuations stripped out, revenue increased by 12% and adjusted operating profit rose by 10%.</p> <p>Alongside the results, Bunzl reported the acquisition of Enor, a Norway-based distributor of catering equipment that generated £27m in revenue last year.</p> <p>While global economic growth remains solid, management is confident that it can continue to add bolt-on acquisitions, essential for growth.</p>
30/8/2018	<b>Hays</b>	<p>Hays, the UK's biggest recruitment company, declared a special dividend and boosted its full-year dividend by 18% as it posted “landmark” full-year results.</p> <p>Pre-tax profits were 17% higher than the previous year, at £238.5m in the year ending 30 June. Net fees were up 12% to a record £1.07bn on a like-for-like basis.</p> <p>“We further strengthened our leading positions in key markets like Australia and Germany, and our UK business delivered a good profit performance, despite macro uncertainty,” said chief executive Alistair Cox.</p> <p>The group has proposed a special dividend of 5p per share and declared a full-year dividend of 3.81p a share.</p> <p>“Looking ahead, conditions remain positive in virtually all of our markets,” said Mr Cox. “We are investing significantly in key growth markets where we see structural and market share opportunities, notably Germany, France and the USA.”</p>

## Key Company Diary Dates

Tue 04 Sep	Redrow	Full-year results
Tue 04 Sep	WPP	Half-year results
Wed 05 Sep	Barratt Developments	Full-year results
Thu 06 Sep	Go-Ahead Group	Full-year results
Thu 06 Sep	Melrose Industries	Half-year results

## Economic highlights over the next week

**Mon 03 Sep – Caixin Manufacturing PMI** – China's manufacturing sector grew at the slowest pace in eight months in July. The Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) fell to 50.8 from June's 51.0.

**Fri 07 Sep – Halifax House Price Index** – UK house prices picked up in July, with the annual rate of growth rising from 1.8% in June to 3.3%, the largest increase since last November.

**Fri 07 Sep – US Nonfarm Payrolls** – Total nonfarm payrolls increased by 157,000 in July, below the 190,000 expected in a Reuters survey of economists.

### Index Movements\*

Index	Value	%Change
FTSE 100	7,516.03	-0.62
FTSE 250	20,691.75	0.13
AIM	1,102.10	0.87
Dow Jones	25,986.92	1.29
S&P 500	2,901.13	1.55
Hang Seng	28,164.05	1.34
Nikkei 225	22,869.50	2.05

### Currency Movements\*

Currency Pair	Value	%Change
£:\$	1.30	0.01
£:€	1.12	0.01
£:¥	144.84	0.01

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

Sector	%Change
Auto's & Parts	9.90%
Basic Resources	2.61%
Technology	2.42%
Banks	-1.36%
Personal & Household Goods	-2.47%
Telecoms	-3.76%

### Best & Worst FTSE 100 performing stocks\*

Company	%Change
Evrax	4.59%
NMC Health	4.11%
Glencore	3.99%
Tesco	-3.55%
Vodafone Group	-4.79%
British American Tobacco	-6.65%

\*Weekly movements up until close of business Thursday

#### Important Notes:

Main source of information: Company Report and Accounts, Bloomberg

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