

# The Week in Perspective

5 July 2019

## Market roundup

This week, UK shares saw three straight days of gains before a pause was imposed on Thursday when US markets closed for Independence Day.

The FTSE100 rose by 1% on Monday, helped by the trade truce between the US and China agreed during the weekend. The more domestically-focused FTSE250 index closed up by 0.9%, with blue chips performing particularly well.

Tuesday saw continuing upside, despite poor data from the UK construction sector. The FTSE100 closed up by 0.8%, buoyed by more optimistic tweets from President Trump about how well talks were going with China (this helped the US market reach consecutive record highs on Monday, Tuesday and Wednesday).

In the UK, the FTSE250 index fared less well on Tuesday, closing up by just 0.1% as investors' moods were soured by data suggesting challenging circumstances for the construction sector, an industry commonly regarded as a barometer for the UK economy as whole.

On Thursday, the benchmark FTSE100 closed effectively flat as markets in the US were shut. In early trading on Friday, shares were heading down.<sup>1</sup>

## Company focus: Associated British Foods

Associated British Foods blamed poor weather in May for disappointing results from its discount fashion retailer Primark.

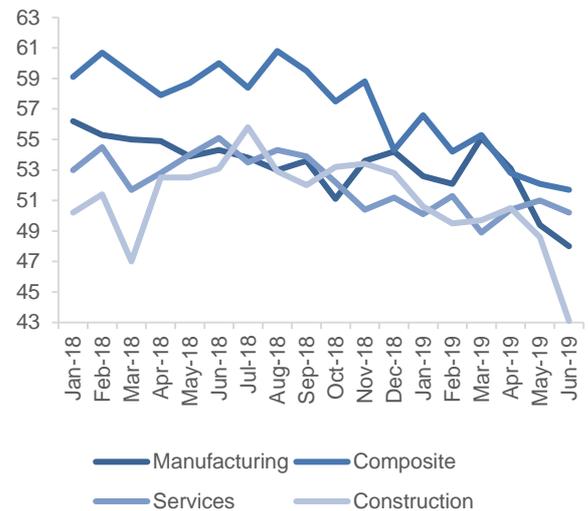
The group, which owns food brands such as Ovaltine and Twinings and agriculture and food ingredients businesses, said on Thursday that Primark's sales in the 40 weeks to 22 June were 4% ahead of last year on a constant currency basis. However, AB Foods reported a decline in sales on a like-for-like basis, which corrects for any uplift in the figures derived from new store openings. Primark accounts for about half of the group's revenue and profit.

The company said that sales in Primark stores in the eurozone were also affected by "unseasonable weather" in May but that they had recovered strongly in June. The company said Primark delivered "encouraging" like-for-like sales growth in the US. Overall group revenue at constant currency for the period was 3% higher than the same period last year. At actual exchange rates, revenue grew by 2% year-on-year. In the grocery division revenue for the quarter was 1% ahead of last year. At the group's ingredients division revenue was 5% ahead of last year. Guidance for the coming year was unchanged with management expecting operating profit in line with last year.<sup>2</sup>

<sup>1</sup>Source: Sharecast

<sup>2</sup>Source: Company report

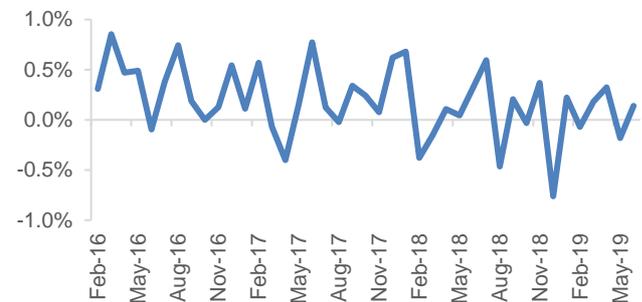
Chart 1: PMI data



Source: IHS Markit

Data at 04/07/2019

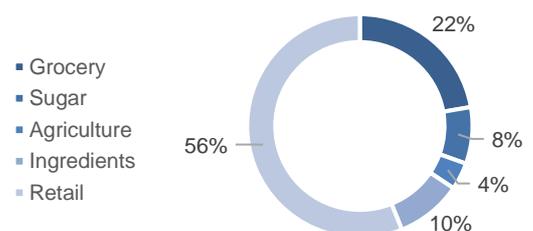
Chart 2: House prices monthly Change



Source: Nationwide

Data at 04/07/2019

Chart 3: Associated British Foods Operating profits breakdown



Source: Brewin Dolphin client note

Data at 04/07/2019

## Economic roundup

There was hope from overseas with dovish talk from major central banks and the US and China agreeing a truce in their trade war at the weekend, but it was a poor week for economic data at home.

Business activity in the UK contracted in June, the first time there has been such a broad-based drop in almost three years. The UK composite PMI, which is compiled from data from three PMI surveys covering the manufacturing, construction and services sectors, fell from a reading of 50.7 in May to 49.2 in June. Any reading below 50 signifies contraction.

Chris Williamson, chief business economist at *IHS Markit*, which compiles the various sector PMI surveys, said: "Collectively, the PMIs indicate that the economy has slipped into contraction for the first time since July 2016, suffering the second-steepest fall in output since the global financial crisis in April 2009." The news appears to have confirmed various predictions of a slowdown in the UK economy in the second and third quarters, and markets are now pricing in a 50% chance of an interest-rate cut before the end of the year to help boost business activity and consumer spending.

The manufacturing survey was released on Monday with a reading of 48 for the month of June, down from 49.4 in May. Analysts are now suggesting that manufacturing will fall further next month as Brexit worries suppress production, demand and investment. On Tuesday IHS Markit released its construction sector PMI, which revealed activity had fallen to its weakest level in more than 10 years. The index fell to 43.1 in June, the lowest level since April 2009. It was far below the 49.3 level forecast by City economists in a Thomson Reuters poll, and down on the 48.9 reading in May.

"The latest survey reveals weakness across the board for the UK construction sector, with house building, commercial work and civil engineering activity all falling sharply in June," said Tim Moore, associate director at IHS Markit.

Finally, on Wednesday the IHS/Markit survey for the services sector, which accounts for around 80% of the UK economy, showed that it fell to 50.2 in June from a reading of 51 in May. The survey did show an improvement in the pace of employment in the sector, but the fall in productivity was among the worst in the survey's history. Taken together the surveys suggest that UK economic growth will be flat in the second quarter and will struggle to improve in the third quarter given the broad falls in productivity and new orders.

Also this week, the latest Nationwide House Price Index revealed a downbeat housing market in June, with national average prices rising by just 0.5% compared to the same time last year. This is the seventh month in a row where annualised price increases remained below 1%. In London, the survey showed prices falling, although the pace of decline slowed. In the quarter to June prices fell by 0.7% on an annualised basis, down from a drop of 3.8% in the previous quarter compared to the same quarter in 2018.

Overseas, the truce between China and the US was welcomed but a senior Chinese official was reported as saying that a deal was not possible unless the US lifted its existing tariffs on Chinese goods.

## Company announcements that caught our attention this week:

Date	Company	Comment
03/07/2019	<b>Sainsbury (J)</b>	<p>Sainsbury's said on Wednesday that total sales, excluding fuel, fell 1.2% in the first quarter, in a retail market that it described as "highly competitive and promotional".</p> <p>The supermarket giant said that it had reduced the prices of more than 1,000 own-brand products since February. But in its latest trading statement, covering the 16 weeks to 29 June, the company reported a 1.6% decline in like-for-like sales - figures that do not reflect the impact of opening new stores. General merchandise sales fell 3.1% during the period. Clothing sales, down 4.5%, were particularly weak. However, Sainsbury's said it had still overtaken Tesco to become Britain's fifth-largest clothing retailer by volume. A planned £12bn merger with Asda was blocked by competition authorities during the quarter. Chief executive Mike Coupe said that the group now plans to invest in 400 supermarkets this year, including adding an enhanced beauty offer in 100 stores.</p>
01/07/2019	<b>Applied Materials</b>	<p>On Monday, US-based Applied Materials announced the acquisition of Japanese semi-equipment manufacturer Kokusai Electric for \$2.2bn (£1.7bn). Applied Materials dominates the global market for equipment involved in the early stages of turning wafers of silicon into computer chips. Kokusai, sold by private equity group KKR, focuses on processing many wafers in parallel, known as "batch processing". The acquisition will boost Applied Material's batch processing capabilities for memory chips, as it bets on rising demand for use in data centres, 5G phones and AI-powered devices. The deal, expected to complete next year, does not require the approval of the US Justice Department but will need the blessing of Chinese regulators.</p>

## Key company diary dates

Tue 09 July	Micro Focus	Interim results
Wed 10 July	Barratt Developments	Trading update
Wed 10 July	Wetherspoon (J.D.)	Trading update

## Economic highlights over the next week

**Wed 10 July – UK Manufacturing and production data** – After fears were raised of a potential recession ahead, every economic indicator will be picked over by economists even more closely than usual.

**Wed 10 July – UK Balance of Trade** – The UK trade deficit increased to £15.6bn in the three months to April compared with £12.9bn in the previous three months. Exports increased by 0.8% and imports by 2.2% over the period.

**Fri 12 July – China Balance of Trade** – China's trade surplus increased to \$41.7bn in May as exports rose unexpectedly while imports dropped the most in nearly three years.

### Index Movements\*

Index	Value	%Change
FTSE 100	7,604	2.72%
FTSE 250	19,798	2.50%
AIM	917	-0.68%
Dow Jones	26,966	1.66%
S&P 500	2,996	2.42%
Hang Seng	28,796	0.61%
Nikkei 225	21,702	1.71%

### Currency Movements\*

Currency Pair	Value	%Change
£:\$	1.26	-0.81%
£:€	1.11	-0.05%
£:¥	135.57	-0.77%

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

Sector	%Change
Insurance	2.27%
Financial Services	0.65%
Technology	0.31%
Basic Resources	-1.51%
Chemicals	-2.23%
Oil & Gas	-2.82%

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

Company	%Change
Flutter Entertainment	20.88%
Burberry Group	8.97%
British American Tobacco	7.89%
Croda International	-3.50%
Next	-3.37%
Coca-Cola HBC	-2.71%

\*Weekly movements until close of business 04 07 2019. Sources: Bloomberg, Refinitiv

## Important notes:

The value of investments and any income from them can fall and you may get back less than you invested. Past performance is not a guide to future performance and performance is shown before charges, which would reduce the illustrated performance. No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition, we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our [conflicts policy](#). If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset. The opinions expressed in this document are not necessarily the views held throughout Brewin Dolphin Ltd. The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

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