The Week in Perspective

19 August 2016

Brewin Dolphin Research

Market Roundup

The FTSE 100 Index rose 0.4% on Monday, extending its run towards the key 7,000 level as global markets neared or reached record highs.

The index was pushed higher by commodity stocks and a rising oil price amid hopes that OPEC will impose a production freeze at its September meeting. Royal Dutch Shell and BP were obvious beneficiaries. The generally positive mood was helped by JP Morgan Cazenove reinforcing its "overweight" stance on the FTSE 100, describing it as a "defensive" investment with high yields and a strong correlation to emerging markets. The weak pound benefits the index, with 72% of constituents' earnings coming from overseas.

The positive mood did not last, however. On Tuesday the market was pulled down by poor sentiment following UK inflation data that showed the Consumer Prices Index (CPI) rose to 0.6% in July. Crucially, within the data were suggestions that the weaker pound was beginning to push up prices for manufacturers who buy parts from abroad.

On the corporate front, BHP Billiton's results were dreadful, with a record $6.4bn loss for the year due to slumping commodity prices and a mining disaster at one of its operations in Brazil. The firm slashed its dividend, although the shares rallied after an initial fall.

Wednesday was another down day for UK shares as better-than-expected jobs data failed to lift the market. The FTSE 100 closed 0.5% lower while the FTSE 250 fell 0.3%. Admiral Group, the insurer, was the biggest blue-chip faller as it highlighted risks to its business following the Brexit vote.

Thursday saw the market close up 0.1% after the publication of positive UK retail sales figures and minutes from the Federal Reserve's July meeting which showed caution about raising US interest rates. Miners, including Antofagasta, Glencore and BHP Billiton, had a good day as commodity prices rose on the back of a weaker dollar. UK shares were down slightly in early trading on Friday ahead of the publication of public sector borrowing figures.

Company focus: Admiral Group

Admiral Group reported a 4% increase in pre-tax profits for the first half of 2016 and raised its dividend by 23%, but spooked investors with a warning that market volatility after the Brexit vote had squeezed its solvency ratio.

The insurer announced a pre-tax profit of £193m, which was higher than analysts' expectations, as was the first-half dividend of 62.9p. Admiral said it had increased premiums in line with the market while still seeing strong volume growth. Customer numbers grew by 15% to 4.8m.

The group is continuing to explore new products - such as car loans – to exploit its customer database and to cross-sell. Away from insurance, it made an overall loss of £1.1m on its price comparison businesses, though profits at Confused.com, its UK operation, increased to £8.3m.

Despite the positive numbers, the shares fell heavily amid concerns about Admiral's solvency ratio: down from 206% at the end of December to 180% at the end of June, driven by lower interest rates following the Brexit vote. The group insisted, though, that its capital position remains strong.

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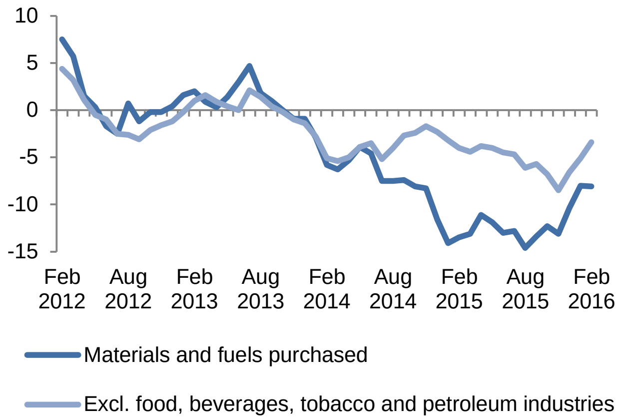
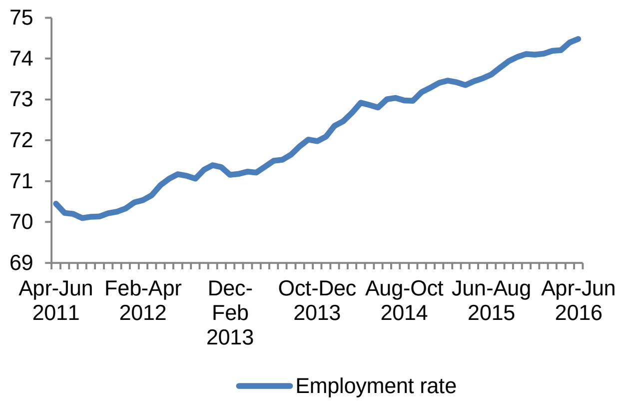
Chart 1: UK Producer Price Index (%)



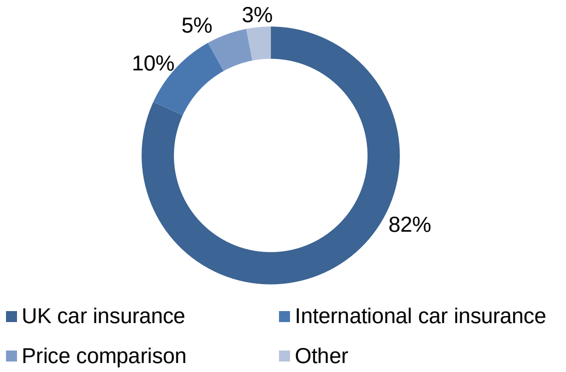
Source: ONS Data at: 19/8/2016

Chart 2: UK employment (%)



Source: ONS Data at: 19/8/2016

Chart 3: Admiral Group, 2014 turnover



Source: Brewin Dolphin; company reports
Data at: 19/8/2016

Economic Outlook

House prices fell in August compared to July, largely due to Brexit-related worries, according to a survey by Rightmove on Monday. Prices of properties for sale dropped 1.2% in August in England and Wales, the largest decline since November, following a 0.9% fall in July. The average asking price for properties in England and Wales stands at about £304,000. Year-on-year, asking prices were up 4.1% but London suffered the biggest fall with asking prices down 2.6% to below £620,000.

A separate survey released by the Office for National Statistics (ONS) on Tuesday showed house prices accelerating in the year to June, but this did not factor in the effect of the referendum result.

Eagerly awaited UK inflation data, published on Tuesday morning, showed the Consumer Prices Index (CPI) rising to 0.6%, its highest reading since November 2014 and slightly higher than the 0.5% forecast by economists. The main drivers of higher prices were fuel and alcoholic drinks.

There was a hint that the weaker pound is feeding through to UK company supply chains, with factory input prices jumping 4.3% year-on-year. The ONS's Producer Price Index showed the first increase since September 2013 in material and fuels bought for processing by UK manufacturers. These higher material prices could affect consumer prices later in the year, pushing inflation higher.

Another round of Bank of England gilt-buying proved a success, as investors took advantage of higher bond prices following last week's failure to find enough sellers of long-dated bonds. The Bank received offers from investors worth 2.67 times the amount it wanted to buy.

On Wednesday, official UK jobs data showed no sign of a rise in unemployment around the time of the Brexit vote. The number of people in work rose by 172,000 to 31.75m in the three months to the end of June, according to the ONS. At 74.5%, the employment rate – the proportion of people aged from 16 to 64 in work – was the highest since comparable records began in 1971, while there was a surprise fall in jobless claims in July. However, more restrained hiring intentions point to a slowing in jobs growth and a pick-up in unemployment in coming months.

Across the Atlantic, all eyes were on the release of the minutes from the Federal Reserve's July meeting. These revealed that Fed chiefs remain split on raising interest rates, meaning there appears to be less likelihood of a US rate increase before the end of this year.

Meanwhile, on Thursday, Standard & Poor's, the credit rating agency, warned that almost 500m people now live in countries with negative central bank rates. While it concluded that in the eurozone negative rates are having the "desired stimulative effect" in Japan there is little evidence they are working.

Thursday saw positive news on UK retail sales. The ONS said the volume of sales in July rose by a far bigger than expected 1.4% month-on-month, rebounding from a 0.9% fall in June and suggesting that consumers have not been ruffled by the Brexit vote.

On Friday, official figures showed the pace of government deficit reduction slowed in July because of lower-than-expected tax receipts.

However, the ONS also published data showing the total net worth of the UK was £8.8 trillion at the end of 2015 – an average of about £135,000 per individual, or £327,000 per household. The total was up 6% compared with 2014, with much of the change reflecting higher property prices. The nation's net worth has more than tripled over the 20 years from 1995.

Company announcements that caught our attention this week

Date	Company	Comment
17/8/2016	**Cobham**	Struggling aerospace and defence business Cobham announced the appointment of a new chief executive, David Lockwood, who joins the group from Laird, the FTSE 250 technology company. Cobham's current CEO Bob Murphy is to step down from his role and from the board no later than the end of 2016. The business has struggled in recent years due to challenging trading conditions in three important operations: wireless communications; aviation services to natural resources companies; and advanced electronics. Pressure on defence budgets on both sides of the Atlantic has prompted a change in market emphasis toward commercial aerospace and Cobham has faced lower margins as it attempts to adapt. It has issued two profit warnings in the last year and been forced to raise £500m through a rights issue to avoid breaching bank covenants.
15/8/2016	**Genus**	Genus, which sells bulls' semen to dairy farmers, received favourable final verdicts from its US court case against Sexting Technologies (ST). The agricultural breeding company licences semen-sorting technology from ST, which charges Genus a hefty fee of about $10 per straw of semen. Genus, which has been internally developing its own semen-sorting technology, alleged that ST has been abusing a monopoly position. Genus will have to pay about £1.5m in damages to ST for patent infringement and breach of confidentiality agreements. However, the company now has the legal licence to launch its own technology without being sued by ST. The royalty per straw when Genus commercialises its own technology will be $1.75 per straw.

Key Company Diary Dates

Mon 22 Aug	Wireless Group	Half-year results
Tue 23 Aug	Rank Group	Final results
Tue 23 Aug	Persimmon	Half-year results
Wed 24 Aug	WPP	Half-year results
Thu 25 Aug	CRH	Half-year results

Economic highlights over the next week

Tue 23 Aug – **CBI Industrial Trends survey** – Last month's CBI survey of manufacturing executives made for gloomy reading. Optimism about the business situation fell at its fastest pace since January 2009. Expectations for growth in orders were at their lowest since January 2012.

Wed 24 Aug – **US existing home sales** – Will the National Association of Realtors' survey point to a further rebound in the US housing market? Sales of previously owned homes rose 1.1% month-on-month in June to an annual rate of 5.57m units - their highest level since February 2007.

Fri 26 Aug – **UK GDP** – The Office for National Statistics (ONS) will release its second estimate of GDP in the three months to June. Its first estimate reported growth of 0.6%, higher than the 0.4% expansion in the previous three months and better than market expectations of 0.4%.

Index Movements*

Index	Value	%Change
FTSE 100	6,868.96	-0.66
FTSE 250	17,871.04	0.36
AIM	784.29	0.56
Dow Jones	18,597.70	-0.08
S&P 500	2,187.02	0.06
Hang Seng	23,023.16	1.96
Nikkei 225	16,486.01	-1.49

Currency Movements*

Currency Pair	Value	%Change
£:$	1.32	1.53%
£:€	1.16	0.19%
£:¥	131.86	0.37%

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

Sector	%Change
Construction & Materials	5.0%
Oil & Gas	1.3%
Auto's & Parts	1.3%
Healthcare	-0.9%
Personal & Household Goods	-1.1%
Insurance	-1.4%

Best & Worst performing stocks*

Company	%Change
Antofagasta	7.3%
Paddy Power Betfair	5.4%
CRH	4.8%
Royal Bank Of Sctl.Gp.	-4.0%
Standard Chartered	-4.1%
Admiral Group	-5.3%

*Weekly movements up until close of business Thursday