

## Market Roundup

The stock market got off to a disappointing start following the Bank Holiday weekend, with mining shares under pressure and the FTSE 100 Index down 0.2% on Tuesday. Primark-owner Associated British Foods was the day's biggest gainer, up 3.4% after analysts at RBC turned positive.

The negative trend for the market continued on Wednesday with the price of oil dropping sharply amid continuing worries about global oversupply. Commodity stocks were dragged down - BHP Billiton was off 4.9% while Anglo American dropped 4.6% - and the FTSE 100 closed 0.6% lower.

However, banks and housebuilders were lifted by positive house price data from Nationwide Building society showing the annual rate of price growth rising to 5.6% in August. Berkeley Group was among the gainers, up 3% despite its relegation from the FTSE 100.

Meanwhile shares in Restaurant Group plunged 5.9% after Citigroup downgraded the Garfunkel's owner to a "sell".

GKN was in the spotlight on Thursday, with takeover speculation sending its share price soaring by almost 10%. The engineering firm closed up 4.8% at a one-year high.

The wider market fell for the third day running, with the FTSE 100 off 0.5% as multinationals and dollar earners were hit by a surge in the pound after a Markit survey showed manufacturing bouncing back. GlaxoSmithKline was down 2.4% while Vodafone lost 2.8%.

However housebuilders continued their recent rally, with Berkeley Group up 3.9% ahead of a trading update on 6 September.

In early trading on Friday, the FTSE 100 was up, following better-than-expected UK construction data and ahead of the publication of US employment data.

## Company focus: Hays

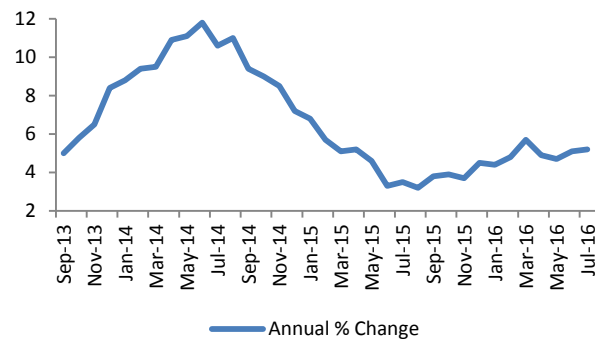
Shares in Hays were hit on Thursday as the recruitment group reported a sharp decline in hiring by banks and other firms in the wake of the Brexit vote. Announcing annual results to 30 June, chief executive Alistair Cox, described the recruitment market in the UK since the referendum as "tough but stable".

"We've seen a step down in activity for permanent recruitment. There is a distinctly greater appetite in the UK for employers to pick up temporary or contract staff. The decision-making process is slower and longer. People are replacing leavers but they're more circumspect about investing in the business."

Even so, the FTSE 250 firm reported an increase in profits and net fees, and promised to consider paying a special dividend. Pre-tax profit increased 11% to £173m, fuelled by growth in Germany, US and France. Hays has benefited from diversifying its business geographically in recent years. A decade ago the UK delivered 80% of its profits, now it makes up under a third.

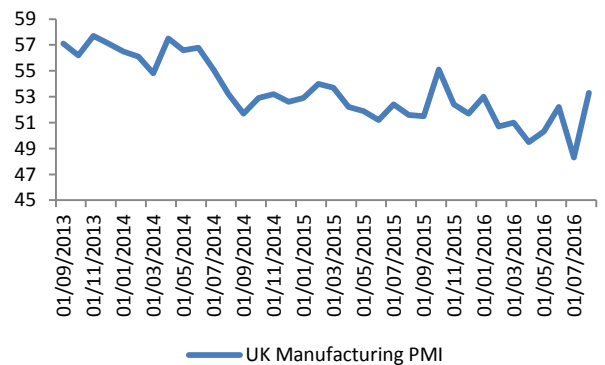
The recruiter declared a 2.9p full-year dividend, a 5% increase on the previous year's 2.76p. It also said that once it achieved a net cash position of around £50m it would return excess cash to shareholders.

Chart 1: Nationwide Building Society, annual house price inflation



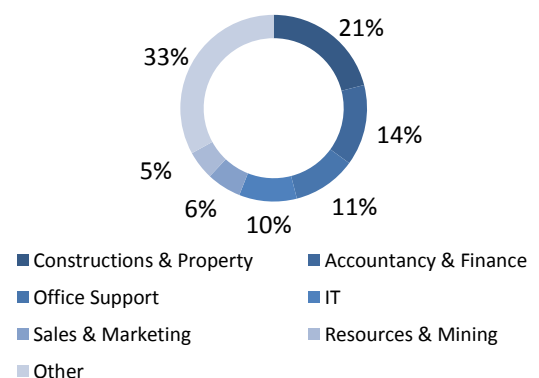
Source: Nationwide Data at: 2/9/2016

Chart 2: Markit UK Manufacturing Purchasing Managers Index



Source: Markit/CIPS Data at: 2/9/2016

Chart 3: Hays, net fees by specialism



Source: Hays annual report 2015 Data at: 2/9/2016

## Economic Outlook

July saw a sharp slowdown in mortgage lending following the Brexit vote, according to data from the Bank of England released on Tuesday. The number of mortgage approvals dropped to an 18-month low, at fewer than 61,000.

Howard Archer, IHS Markit's chief European and UK economist, said of the figures: "July's marked slowdown in mortgage approvals fuels our belief that house prices could ease back by around 3% over the latter months of 2016 and there could well be a further 5% drop in 2017."

However, on Wednesday Nationwide Building Society reported robust house price growth for August. It said property prices rose by 0.5% last month, with the annual rate increasing to 5.6%, up from 5.2% in July.

But the society also said that both demand among buyers and the supply of properties coming on to the market had weakened since the EU referendum in June.

Nationwide chief economist Robert Gardner said: "Surveyors report that instructions to sell have declined and the stock of properties on the market remains close to 30-year lows. This helps to explain why the pace of house price growth has remained broadly stable."

Also on Wednesday, Lloyds Bank's Business Barometer registered a drop in business confidence in August. The balance of firms saying they saw an improvement in economic prospects dived 22 points to 19% - a big fall from July's 41%.

Hann-Ju Ho, a senior economist for Lloyds Bank Commercial Banking, said its survey was "consistent with a slowdown in UK growth prospects in the second half of the year and may reflect a growing expectation for some that a more challenging economic outlook will have a negative impact on their own company prospects."

Meanwhile research company GfK reported improved consumer spirits, with its consumer confidence gauge recovering from minus 12 in July to minus 7 in August.

On Thursday, the Markit/CIPS Purchasing Managers Index (PMI) for manufacturing also showed a strong rebound for August, having fallen sharply in the wake of the EU referendum.

The rise in the index to a 10-month high of 53.3 was the biggest monthly increase in 25 years.

Factories were boosted by their highest levels of export orders since July 2014, thanks to weaker sterling following the Brexit vote.

New business levels, domestic and foreign orders, and new contracts all showed a marked improvement in August, as a sense of "business as usual" returned to the sector, said IHS Markit.

The contraction in Britain's building industry also moderated in August, according to the Markit/CIPS PMI for the construction sector.

Output in the construction industry fell for the third consecutive month, but the fall was not as bad as expected.

The weaker pound is crimping UK builders, Markit said, with input costs rising at their fastest pace in five years as firms face higher prices for imported materials.

Uncertainty generated by the referendum result also weighed on construction firms who reported muted house building and commercial activity.

## Company announcements that caught our attention this week

Date	Company	Comment
30/8/2016	<b>Petrofac</b>	Oil services company Petrofac reported a good set of results on Tuesday, drawing a line under heavy losses on a troubled gas project off the Shetland Islands. The FTSE 250 firm produced a profit of \$12m (£9m) in the first half of the year, compared with a loss of \$182m in the same period in 2015. Revenue came in at \$3.9bn, 22% higher than a year ago. Petrofac said it has suffered a \$480m loss as a result of delays at the Shetland gas processing plant which serves the Laggan and Tormore fields. It added, however, that the plant has been operating successfully and exporting gas since February. It also reported a "strong bidding pipeline" for new engineering and construction contracts.
30/8/2016	<b>ARM Holdings</b>	Shareholders in the British technology giant ARM Holdings this week backed a £24.3bn takeover by Japan's SoftBank. On Tuesday, 95% of ARM shareholders voted in favour of the deal, which is expected to take effect on 5 September. SoftBank, a sprawling Japanese telecoms and media conglomerate known mostly for its investments in Yahoo Japan, Sprint and Alibaba, will pay £17 in cash for each ARM share, a 43% premium to the closing share price the day before the deal was announced. While SoftBank's history of acquisitions is mixed and the strategic rationale for the ARM deal is not immediately apparent, the Japanese company has given assurances that it will invest considerably in the business, including doubling the UK headcount over the next five years.

## Key Company Diary Dates

Tue 6 Sep	Ashmore Group	Final results
Tue 6 Sep	Redrow	Final results
Wed 7 Sep	Barratt Developments	Final results
Wed 7 Sep	Hargreaves Lansdown	Final results
Thu 8 Sep	Dixons Carphone	Trading update

## Economic highlights over the next week

Wed 7 Sep – **House prices** – Halifax's last monthly house price index showed that UK property values fell 1% in July compared to June, with the average house price standing at £214,678. The annual rate of house price growth remained at 8.4%, but the lender talked about the mixed outlook for market.

Thu 8 Sep – **ECB interest rate decision** – The European Central Bank left its benchmark interest rate at 0% for the fourth straight month in July and is widely expected to leave rates unchanged again this month. However, given that inflation in the eurozone in August was a disappointing 0.2%, many economists believe ECB President Mario Draghi could announce further monetary stimulus.

Fri 9 Sep – **Balance of trade** – In June the UK imported £5.1bn more of goods than it exported to the rest of the world as a £1bn increase in exports was outpaced by a £1.9bn gain in imports. The July figures due to be released on Friday will give a first indication of what the UK's vote to leave the EU might mean for Britain's balance of payments deficit.

## Index Movements\*

Index	Value	%Change
FTSE 100	6,745.97	-1.04
FTSE 250	17,849.63	-0.19
AIM	791.23	0.20
Dow Jones	18,419.30	-0.16
S&P 500	2,170.86	-0.07
Hang Seng	23,162.34	1.52
Nikkei 225	16,926.84	2.24

## Currency Movements\*

Currency Pair	Value	%Change
£:\$	1.33	0.82%
£:€	1.19	1.62%
£:¥	137.26	3.50%

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

Sector	%Change
Autos & Parts	6.5%
Banks	5.2%
Insurance	1.7%
Telecoms	-2.2%
Healthcare	-2.4%
Basic Resources	-3.8%

## Best &amp; Worst performing stocks\*

Company	%Change
GKN	5.5%
Associated British Foods	5.0%
HSBC	4.7%
Anglo American	-6.1%
BHP Billiton	-6.9%
Fresnillo	-7.8%

\*Weekly movements up until close of business Thursday

## Important Notes:

Main source of information: Company Report and Accounts, Bloomberg

The value of investments 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.