The Week in Perspective

4 November 2016

Market Roundup

Shares were on a losing streak this week ahead of next Tuesday's US presidential election.

The FTSE 100 index was off 0.6% on Monday, although with October coming to a close the blue-chip index still recorded its fifth monthly increase in a row.

Tuesday saw the FTSE 100 lose another 0.5% amid rising concerns about a possible Trump victory in the US election.

Royal Dutch Shell shares jumped 4% after announcing better than expected third-quarter profits, but BP dropped 4.5% as it revealed a 50% fall in profits.

The market fell 1% on Wednesday as opinion polls continued to narrow in the US. Standard Chartered lost 4.3%, falling for the second day running after disappointing third-quarter results on Tuesday, while Barclays was off 2.5%.

However G4S leapt 10.3% on a positive trading update. EasyJet, among the FTSE 100's worst performers this year, also rose 2.9% after HSBC upgraded the airline's shares to a "buy" and lifted its target price from 800p to 1,150p.

On Thursday the FTSE 100 was down another 0.8% - though mid-cap shares rose - as the pound strengthened after the High Court ruled the government would need parliamentary approval to trigger Article 50, the treaty clause to leave the EU.

GlaxoSmithKline, a major beneficiary of sterling weakness, lost 3.3%, while Pearson was down 2.1%. But Dixons Carphone was up 4.6% on a broker upgrade and Shire added 2.4%.

Shares were down heavily in early trading on Friday ahead of US non-farm payrolls data.

Company focus: BP

BP posted better than expected third-quarter results, although profits were still down 50% from last year thanks to low oil prices.

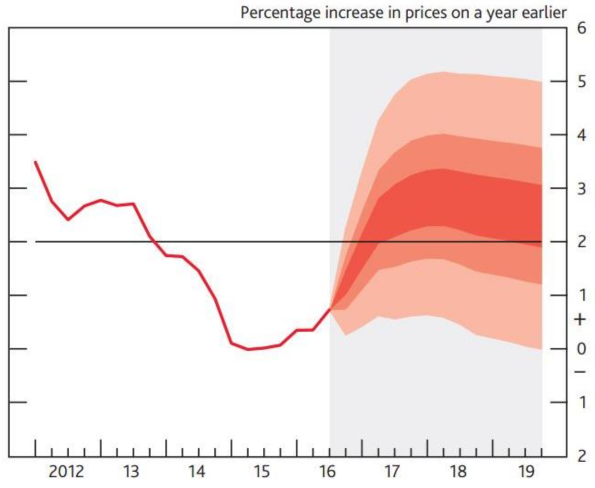
The oil giant's profits came in at $933m for the three months to the end of September, on an underlying replacement cost basis, compared with $1.8bn last year. The results were helped by a one-off tax credit.

The group blamed lower oil prices for the year-on-year profits slump, as well as a difficult production quarter which was disrupted by several major "turnarounds" and higher rig cancellations.

While remaining under pressure from weak oil prices, BP sought to reassure shareholders that it is investing in "projects, businesses and options to deliver growth in the year ahead" and said it would cut its 2016 investment plans by another $1bn. It now expects to spend $16bn on capital expenditure, compared with a previous prediction of $17bn to $19bn.

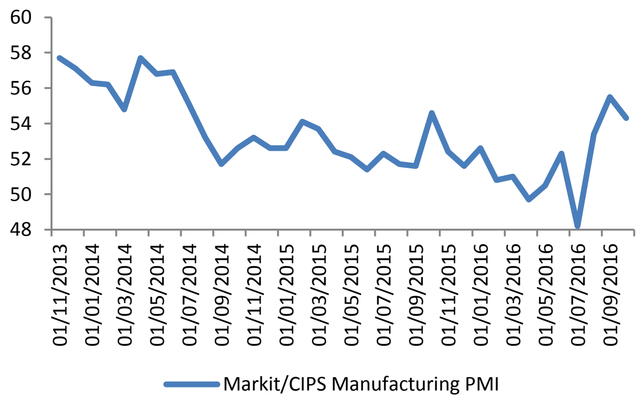
The dividend was maintained at $0.10 per share.

Chart 1: Inflation (CPI) projection



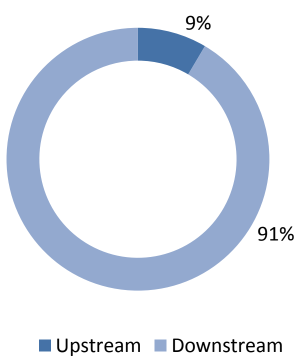
Source: Bank of England Inflation Report Data at 4/11/2016

Chart 2: Markit/CIPS Manufacturing PMI



Source: Bloomberg Data at 3/11/2016

Chart 3: BP revenue breakdown Q3 2016



Source: BP client note Data at 3/11/2016

Economic Outlook

Mark Carney said on Monday that he will stay on as governor of the Bank of England until June 2019, but will stand down once Britain leaves the EU and will not serve a full eight-year term.

In a letter to Philip Hammond, the Chancellor of the Exchequer, Carney said he hoped his decision to stay until 2019 would “help contribute to securing an orderly transition to the UK’s new relationship with Europe”.

On Tuesday, the Markit/CIPS UK manufacturing purchasing managers' (PMI) index showed a fall to 54.3 from 55.5 in September. However the indicator still showed the manufacturing sector in growth mode. The weak pound has helped export orders but has also raised input costs, including oil and other dollar-denominated commodities.

Rob Dobson, senior economist at Markit, said: "Despite slowing from September's highs, growth of output and new orders continued to defy expectations, rising at a solid pace and supporting the fastest job creation in a year."

Prices on the high street continued to fall in October, according to a retail industry survey published on Wednesday, with supermarkets mostly absorbing the rising costs from a weaker pound. Overall shop-price deflation was 1.7%, the BRC-Nielsen shop price indicator showed.

"While we know that the devaluation of sterling since the Brexit vote is stoking inflationary pressures, the good news for consumers is that retailers have been successful in managing this to date and there is still no impact visible in shop prices," said BRC chief executive Helen Dickinson.

Meanwhile, UK house price growth slowed in October to an annual rate of 4.6%, according to Nationwide building society. "Measures of housing market activity remain fairly subdued,” it said.

And, as expected, the Federal Reserve kept US interest rates unchanged but said the case for an increase had “continued to strengthen”.

On Thursday, the Bank of England Monetary Policy Committee (MPC) voted unanimously to keep interest rates on hold while forecasting that inflation would rise to 2.7% next year.

This would be the largest overshoot of its 2% inflation target since the Bank became independent in 1997, and followed a forecast earlier in the week from the National Institute of Economic and Social Research that inflation would rise to nearly 4%.

Warning that “there are limits to the extent to which above-target inflation can be tolerated”, the Bank indicated that interest rates from now were as likely to rise as they were to fall.

The Bank also increased its prediction of economic growth to 1.4% next year, up from 0.8% forecast back in August.

Also on Thursday came the High Court ruling that the government does not have the right to trigger Article 50 to start the Brexit process without parliamentary consent. The government will appeal against the decision but the pound surged above $1.24 on the news, its highest level in a month.

The dominant UK services sector expanded for the third month in a row in October, with business activity growing at its fastest pace since January, according to the latest Markit PMI survey. However the survey also recorded the biggest-ever one-month in input prices because of the weak pound.

Company announcements that caught our attention this week

Date	Company	Comment
2/11/2016	**G4S**	G4S published a strong trading update on Wednesday. The world’s biggest security company said revenues in the first nine months of this year were up 5.7% to £4.8bn compared with same period last year. This is an improvement on the 5.1% rise in revenue it reported in July. So far this year the group has won new contracts worth £1bn in annualised revenues. The company also said it was on track to reduce net debt by the end of 2017. A strong investment performance from the company’s pension scheme year-to-date has resulted in the decision to reduce its pension deficit payment from £44m in 2015 to £39m in 2016.
3/11/2016	**Tate & Lyle**	Results from Tate & Lyle came in well ahead of expectations. The ingredients’ supplier said it made pre-tax profits of £128m in the six months to 30 September. This is an 83% increase from the £70m recorded in the same period last year. The strong rise partly reflects the fall in the value of the pound following the Brexit vote. Excluding the impact of weaker sterling, profits rose 63%. If exchange rates stay at current levels, the group expects full-year profits to benefit by £40m. The company said sales rose 13% to £1.3bn, or a 1% increase excluding foreign exchange movements. Volumes of new products grew by 28%, with revenue up 18%. The interim dividend was maintained at 8.2p.

Key Company Diary Dates

Mon 7 Nov	HSBC	Quarterly results
Tue 8 Nov	Imperial Brands	Final results
Tue 8 Nov	Marks & Spencer	Half-year results
Wed 9 Nov	SSE	Half-year results
Thu 10 Nov	National Grid	Half-year results

Economic highlights over the next week

Tue 8 Nov – **Industrial production** – Previous figures for August showed weaker-than-expected industrial production, down 0.4% on a monthly basis. Compared to August 2015, production increased 0.7%, according to the Office for National Statistics (ONS).

Wed 9 Nov – **Balance of trade** – In August the UK's trade gap with the rest of the world worsened as it imported £4.7bn more goods than it exported, compared with a £2.5bn deficit in July. The ONS said a £100m increase in exports was outpaced by a £2.6bn rise in imports.

Fri 11 Nov – **Construction output** – The sector has been closely watched for signs of a slowdown since the Brexit vote. Construction output fell by a monthly 1.5% in August after a revised 0.5% increase in July. However, the ONS said that it seemed "unlikely that post-referendum uncertainties" were having an impact.

Index Movements*

Index	Value	%Change
FTSE 100	6,790.51	-2.81
FTSE 250	17,581.91	0.00
AIM	809.11	-1.69
Dow Jones	17,930.67	-1.32
S&P 500	2,088.66	-2.08
Hang Seng	22,683.51	-1.94
Nikkei 225	17,134.68	-1.16

Currency Movements*

Currency Pair	Value	%Change
£:$	1.25	2.30%
£:€	1.12	0.68%
£:¥	128.50	0.49%

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

Sector	%Change
Retail	4.6%
Travel & Leisure	3.4%
Basic Resources	1.7%
Banks	-1.8%
Oil & Gas	-2.3%
Healthcare	-2.5%

Best & Worst performing stocks*

Company	%Change
International Airlines Group	9.0%
EasyJet	8.3%
Dixons Carphone	8.2%
Standard Chartered	-7.9%
Shire	-8.3%
BP	-8.5%

*Weekly movements up until close of business Thursday