



## MONTHLY COMMENTARY – 30<sup>th</sup> OCTOBER 2015

### THEMES FROM THE MONTH

\*Bank of England Governor Mark Carney said that a rise in the base rate was a “possibility not a certainty” pedaling back on earlier statements over the timing of a change in interest rates. Rate rises will be “gradual”.

\*UK GDP growth slowed to 0.5% during Q3, from 0.7% in Q2 due to weak construction and manufacturing. This undershot expectations of 0.6% growth.

\*The ECB Governing Council meeting in Malta discussed further measures to improve the effectiveness of the QE programme (€60bn monthly bond purchases). The ECB is said to be concerned over the commodity collapse on emerging economies and the slowdown in global growth.

\*UK banks Q3 interim statements were poor. Barclays reported Q3 profit of £1.43bn missing estimates and raising its 2016 cost estimates by £400m. RBS reported a Q3 operating loss of £134m. Lloyds Q3 profit fell to £690m after booking a further £500m PPI related expense. Investors are concerned at bank capital requirements ahead of the 2019 adoption of retail ring fencing rules.

\*Q3 was a tough period for oil majors. BP announced underlying profits of \$1.81bn down 40%. Royal Dutch Shell announced a Q3 loss of \$6.1bn from a \$5.3bn profit reflecting the decisions to write off its Alaskan offshore expenses and write down assets due to weaker crude oil prices.

\*Sweden’s Riksbank said it would expand its QE programme by SEK65bn (\$7.6bn) in a move to stimulate the economy.

\*Equiniti Group, a provider of investor services floated at 165p per share at the bottom of the range, but the shares opened at 157.5p.

### FORTHCOMING UK EVENTS

**2<sup>nd</sup> November** Gfk Consumer Confidence

**3<sup>rd</sup> November** CIPS Manufacturing PMI

**4<sup>th</sup> November** UK Services PMI

**5<sup>th</sup> November** UK Halifax House Prices/  
BoE Interest Rate Decision

**6<sup>th</sup> November** UK Balance Of Trade/ UK  
Manufacturing

**11<sup>th</sup> November** UK Average Earnings

**17<sup>th</sup> November** UK Core Inflation

**19<sup>th</sup> November** UK Retail Sales

**20<sup>th</sup> November** UK Public Sector  
Borrowing Requirement

### COMPANIES RECOMMENDED

\*Ferrari (HOLD) 27/10/2015

PERFORMANCE OF WORLD MARKETS 30 OCTOBER 2015				
NORTH AMERICAN INDICES				
	VALUE	CHANGE (+/-)	+/- (1M)%	+/- (1YR) %
DOW JONES (close)	17,663.54	1391.53	8.55	1.57
S&P 500 (close)	2,079.36	155.54	8.08	3.04
NASDAQ (close)	5,053.75	426.66	9.22	9.13
EUROPE/ UK INDEX				
	VALUE	CHANGE (+/-)	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (close)	6,342.53	229.71	4.63	-0.43
DAX 30 INDEX (close)	10,850.14	1335.65	12.31	19.04
EUROSTOXX 50 (close)	3,418.23	247.62	10.24	12.59
ASIA/ FAR EAST				
	VALUE	CHANGE(+/-)	+/- (1M)%	+/- (1YR) %
Shanghai Composite (close)	3,382.56	330.20	10.80	46.92
Nikkei- 225 (close)	19,083.10	1361.01	9.77	24.82
ASX 200 (close)	5,239.40	193.10	4.35	-3.18
HANG SENG (close)	22,640.04	1139.50	8.58	-2.84
SOURCE: FIDESSA/ SAXO BANK				

# OCTOBER 2015 NEWSLETTER



**COLLINS SARRI STATHAM**  
INVESTMENTS

## UNITED KINGDOM

The UK slowdown was confirmed in the Q3 GDP statistics. Global events are impacting the UK and it appears the Bank of England “on hold” until 2016.

George Osborne’s plan to cut £4.4bn via axing working tax credit and child tax credit was defeated in the House of Lords, the first legislative reversal for the Conservative government. We have been negative about Osborne tinkering (stamp duty, BTL lending, climate change levy) but on this occasion the plan has been stopped in its tracks. We expect the November 25<sup>th</sup> Autumn Statement to backtrack on a bad policy idea. The Chancellor is not expected to alter his plan to deliver a £10bn surplus by 2020.

UK blue chips are a “tug of war” with bear sectors, mining, oil, banking, exerting downward pressure. We await evidence of easing supply pressures, such as mines being put on “care and maintenance” before expecting commodity prices to rally.

## EUROPE

Whilst not expressly saying so, the ECB Governing Council meeting in Malta might be considering tweaks to its QE programme. The problem is near 0% EU inflation, largely a function of the collapse in commodity prices. The ECB, Swiss, Swedish and Danish central banks are already using negative interest rates, in the ECB’s case (-0.2%). If the ECB lowers this rate further, then commercial banks would have to pay the ECB more for holding reserves and hence lend more. We await the upcoming ECB meeting on 3<sup>rd</sup> December.

## CHINA/ JAPAN

China’s decision to end the one child policy is recognition of the ageing population problem that could boost China’s GDP growth (6.9% in Q3). As China continues its shift from export / infrastructure onto the consumer and domestic services, the transition is resulting in significant global pressures. Chinese demand for commodities is weakening. But of concern to investors has been the erratic management of Chinese capital markets. The police raid on Zexi Investments (a large Shanghai hedge fund) appeared an attempt by authorities to crack down on short selling deemed to be destabilising to the market’s functioning. Tokyo and Shanghai indices saw similar returns reacting to interest rate cuts. Both currencies are in a narrow band v USD.

## UNITED STATES

US Q3 was “thrills & spills” from “bulge bracket” banks.

Co	Q3 2015 EPS	Q3 2014 EPS	Hit/ Miss	COMMENT
Goldman Sachs	\$2.90	\$4.57	Miss by 10 cents	Surprising for GS
JP Morgan	\$1.32	\$1.38	Miss by 6 cents	Revenue (6.4%)
Morgan Stanley	\$0.42	\$0.62	Miss by 21 cents	Revenue (13%)

Source; CSS Investments Ltd

The US investment banks Q3 results coupled with Deutsche Bank (Q3 €6bn loss) were poor reflecting client absenteeism in a period of volatility in global markets. In Morgan Stanley’s case 40% of revenue is trading orientated despite measures to increase wealth management. Unless trading picks up, recent job cuts in the sector could be only the start of a retrenchment phase during 2016.

## IMPORTANT INFORMATION

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Collins Sarri Statham Investments Ltd. 6th Floor 5 Lloyds Avenue London EC3N 3AE

Telephone: +44 (0)20 7264 2360 Facsimile: +44 (0)20 7264 2361 [www.css-investments.com](http://www.css-investments.com) Email: [info@css-investments.com](mailto:info@css-investments.com)

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