

January 2017 Newsletter

A Modern Stockbroker with
Traditional Values



Themes from January

President Donald Trump promised to put “America First” in a controversial Inauguration speech that was followed by a series of unorthodox executive orders. The US Attorney General has been fired after questioning the legality of an executive order banning refugees and limiting travel from some countries.

BT reported its investigation into its Italian business had revealed further improper accounting practices over a number of years. The board also said the UK public sector and corporate markets had deteriorated. All told BT expects no revenue growth in 2017 or 2018.

Luxottica agreed a €46bn merger with Essilor combining Ray-Ban spectacles with the world’s largest lens maker. The deal could boost operating profit by €600m in the medium term.

Ashmore Group announced assets under management fell US\$2.4bn to US\$52.2bn due to weaker demand for emerging markets funds.

UK GDP rose 2% during 2016 against 2.2% in 2015 however the current account deficit hit 5.2% of GDP highlighting the UK’s need to improve productivity.

Johnson & Johnson is buying Actelion Pharmaceuticals, Switzerland for \$30bn to bolster its exposure to rare disease treatments.

Restaurant Group said trading continued to be challenging with Q4 sales down 5.9%. The board expect 2017 will be difficult due to higher costs.

Tesco is acquiring Booker for £3.7bn in a mix of

Forthcoming UK Events

2
FEB

BoE Interest Rate Decision

3
FEB

UK Services PMI

7
FEB

Halifax House Price Index

10
FEB

UK Balance of Trade/ UK Industrial Production

13
FEB

UK GDP Estimate (3M)

14
FEB

UK Retail Price Index

15
FEB

UK Average Earnings / UK Unemployment Rate

17
FEB

UK Retail Sales January 2017

20
FEB

CBI Industrial Trends Orders

21
Feb

Public Sector Net Borrowing

23
FEB

UK GDP Growth Rate/ CBI Distributive Trades

24
FEB

BBA Mortgage Approvals

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shares plus cash. Subject to competition authority and shareholder approval, Booker shareholders will receive 42.6p cash plus 0.861 Tesco shares per Booker share.

Performance of World Markets (31/1/2017)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	19,864.09	101.49	0.51	20.63
S&P 500 (Close)	2,278.87	40.04	1.79	17.45
NASDAQ (Close)	5,614.79	231.67	4.30	21.69

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,099.15	-43.68	-0.61	17.37
CAC 40 INDEX (Close)	4,748.90	-91.90	-1.13	8.19
EUROSTOXX 50 (Close)	3,230.33	-59.16	-1.06	7.77

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	3,159.17	55.53	1.79	15.37
NIKKEI-225 (Close)	19,041.34	72.47	-0.38	8.70
ASX 200 (Close)	5,620.90	-35.30	-0.62	12.49
HANG SENG (Close)	23,360.78	1382.60	6.28	18.80

Companies Recommended January 2017

UK	Research Date	Recommendation	Share Price	Gain/ Loss*
ConvaTec	12 January 17	BUY	239p	3.3%
Millennium & Copthorne Hotels	12 January 17	BUY	460p	-4.3%
Soco International	12 January 17	BUY	156p	-2.0%
Wizz Air	12 January 17	BUY	1798p	-1.0%
Worldpay	12 January 17	BUY	286p	+0.1%

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*excludes dealing costs, taxes, PTM levies.

United Kingdom

Corporate M&A started 2017 on the front foot with the Tesco/ Booker agreed deal, the first major acquisition for Tesco in years. The merger, (assuming it clears) would increase Tesco's share in UK convenience stores and suggests Tesco is confident its UK market share has reached a sustainable level.

January 2017 has seen sterling relatively stable, partly as there appears to be a "Brexit" plan.



source: www.xe.com

The PM's "Brexit" speech signaled the UK's willingness to enter into a bespoke EU trade deal, it appeared, in return for a continuing UK/EU defense commitment. The ball remains in the UK's court, ahead of Article 50. But quite a lot rests on whether the EU will want to give the UK a bespoke interim deal or cut deals for different sectors. Sir Ivan Rogers, the former UK's ambassador to the EU said the EU would be unwilling to reach free trade deals in different sectors.

China/Japan

As China prepares for friction with the Trump Administration, the Yuan has strengthened over January gaining 0.9% after dropping 13% during 2014-2016. The People's Bank of China considerably reduced its reserves over 2016 supporting the Yuan. However since the election it appears Chinese investors are keeping money at home.

China should benefit from the US withdrawal from the Trans-Pacific Partnership as it disentangles a potentially difficult partner and increases Chinese influence with the 11 other nations.

However the large US/ China trade deficit, (as with Mexico and Germany), is a running sore, Donald Trump claimed that China was financially "raping" the United States and has threatened to impose a 45% import tariff on Chinese goods.

At the Davos summit, the Chinese President Xi Jinping said "engaging in protectionism is like locking one's self in a dark room" – he made a clear case for free markets and free trade. It was clear consumers would lose in a trade war that involved China. Lower Chinese demand would hit commodity prices hard (c. 45% of global copper demand is from China)

Japan as well, which has also been accused of playing a currency game, investors are also re-thinking Japan's export sector's exposure to tougher US trade terms. The PM Shinzo Abe has tried to pre-empt the US initiative by proposing a bilateral US-Japan trade deal.

Europe

The Trump winds have started to blow. Peter Navarro, the head of the Trump's new National Trade Council accused Germany of using a grossly undervalued Euro to "exploit" the USA and EU

United States

A fortnight into the new Trump Administration, radical executive orders have been signed without proper preparation or thought. The US Attorney General has been fired for questioning the legality

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partners. The comments follow anti German rhetoric from Donald Trump criticizing Angela Merkel's immigration policy and creating an EU that was essentially "a vehicle for Germany". The Trump team is concerned at the US trade deficit with Germany in 2016 the US imported \$104.5bn from Germany against just \$45bn. Germany has criticized the Trump move to close the US to refugees as being contrary to international norms.

The head of VDA the German auto industry lobby, Matthias Wissmann has stressed German car makers would "stand together among the 27 EU Member states". The German car industry whilst against the UK leaving the EU without a trade deal in place (hence reverting to the WTO tariffs of 10%) has made clear that a tough approach by PM Theresa May would hurt the trade in UK built vehicles.

The Eurozone reported inflation jumped to 1.8% in January (a 4 year high) from 1.1% in December due to an 8.1% increase in energy prices. Eurozone GDP growth accelerated to 0.5% in Q4 from 0.4% in Q3 2016.

of these orders. Mass demonstrations have taken place, but these have had no impact. The US Congress has not said much.

US investors are rethinking the new US government, but at a slower pace than elsewhere. The US/ Mexico relationship is a useful test case in this respect, given the early executive order to start building the wall with funding from a 20% tax on Mexican imports.

The US building/ aggregates companies that could benefit from a Mexican wall include Vulcan Materials (NYSE:VMC) and Granite Construction (NYSE: GVA).

Exxon Mobil (NYSE: XOM) reported Q4 EPS of \$0.41 which missed consensus forecasts of \$0.79 largely due to a \$2bn impairment charge relating to its dry gas operations in the Rockies.

Apple Corp (Nasdaq: AAPL) surged \$4 after reporting EPS of \$3.36 about 14 cents above consensus forecasts. CEO Tim Cook also flagged Apple would make a significant new investment in India.

JP Morgan (NYSE: JPM) reported Q4 2016 net income of \$6.7bn and a record 2016 net income of \$24.7bn.

Important Information

Risk Warning:

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