

May 2017 Newsletter

A Modern Stockbroker with
Traditional Values



Themes from May

UK opinion polls have suggested the General Election result will not deliver a landslide win for the Conservative party.

US President Donald Trump did not commit to honour Article 5 at the NATO summit in Brussels despite previous indications that he was planning to do so. This unprecedented omission for a new President and a number of anti-German tweets has caused nervousness amongst EU/ NATO partners.

The 14 OPEC members and 10 Non-OPEC countries extended by nine months the period of production quotas. Investors were disappointed there were no further commitments to cut output. Crude oil prices declined below \$50/bbl in response.

Ryanair reported net profits rose 6% to €1.31bn with EPS up 14% to €1.05 despite the sterling decline and a 13% decline in average fares to €41 per seat.

IAG's IT outage over the May bank holiday weekend will result in cancelled flights for 75,000 customers is expected to cost the airline around £100m.

Petrofac chief operating officer Marwan Chedid resigned following an ongoing SFO investigation into payments to Monaco based Unaoil in 2009.

Hikma Pharmaceuticals reported that its launch of generic Advair will be delayed beyond 2017 and revenues would be \$2bn-\$2.1bn. GSK rose strongly as factor was cited as determining EPS growth in 2017.

Forthcoming UK Events

1 JUNE	Nationwide HPI / Manufacturing PMI
2 JUNE	UK Construction PMI
5 JUNE	UK Services PMI
6 JUNE	BRC Retail Sales Monitor
7 JUNE	Halifax House Price Index
9 JUNE	Industrial Production/ Trade balance (April)/ Manufacturing Production
13 JUNE	UK Core CPI/ Core PPI output/ Retail Price Inflation
14 JUNE	UK Average Earnings
15 JUNE	UK Core Retail Sales/ BoE Interest Rate Decisions
21 JUNE	UK Public Sector Net Borrowings
30 JUNE	UK GDP growth rate/ UK Current Account

Collins Sarri Statham Investments Ltd. 12th Floor, Citypoint, 1 Ropemaker Street, London, EC2Y 9HT

T +44 (0)20 7153 1120 **W** www.css-investments.com **E** info@css-investments.com

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IG Group trading update said that revenues for the year to end May 2017 should be 7% above 2016.

Performance of World Markets (31/5/2017)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	21,008.65	345.43	1.64	17.54
S&P 500 (Close)	2,411.80	49.08	2.08	14.90
NASDAQ (Close)	6,198.52	286.78	4.85	25.64

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,519.95	197.03	2.69	19.92
CAC 40 INDEX (Close)	5,283.63	161.12	3.15	17.03
EUROSTOXX 50 (Close)	3,554.59	53.66	1.53	15.47

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	3,117.18	-105.33	-3.27	10.50
NIKKEI-225 (Close)	19,650.57	741.31	3.92	16.73
ASX 200 (Close)	5,724.60	-140.30	-2.39	5.90
HANG SENG (Close)	25,660.65	1,549.06	6.42	24.71

United Kingdom

The tragedy of Manchester had noticeably less impact on capital markets than previous terrorist attacks. This is partly due to familiarization, possibly investors have been numbed to them.

May 2017 saw another failed sterling rally, after briefly hitting €1.19 during April sterling has slumped back down to €1.14 – boosting overseas revenues for UK blue chips.

China/Japan

The Moody's downgrade to China, by one notch to A1 is significant from the viewpoint of external assessment of China's creditworthiness. The rating agency said corporate debt in China, now 170% of GDP as problematic. The level is double the average level of other countries.

China's new agency Xinhua responded that Moody's has underestimated the government's

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Source: www.xe.com

Reputational damage coupled with an unquantifiable liability (a likely SFO related fine) hammered Petrofac shares over May. The shares declined from 822p to 387p following the disclosure of an SFO probe into Unaoil, a Monaco based agent that facilitated payments to officials on behalf of clients.

ability to respond. The Chinese government has in recent weeks started to clamp down on risky lending.

Standard & Poor rates China's debt AA- (its fourth highest level) whilst the Fitch rating at A+ was lowered in April 2013.

Chinese property billionaire Wang Jialin (according to Forbes in 2015 China's wealthiest individual) commented that China real estate is "the biggest bubble in history" and supported by \$3.6trn in mortgage debt. If the Chinese government removes lending support quickly, the economy could enter a downturn according to Jialin.

Shanghai stocks fell 7% over May on concerns over the sensitivity of China's growth rate to debt.

Europe

The Eurozone reported that inflation for the 19 member euro area had dropped to 1.4% in May from 1.9% in April due to weaker crude oil and a stronger Euro. When coupled with other indicators showing a rebound in the Eurozone GDP, expectations have been growing of possible ECB "tapering" back of quantitative easing policies.

ECB chief Mario Draghi has said little so far in relation to reducing ECB quantitative easing which currently allows for bond purchases worth €60bn per month. In April the purchase commitment was cut from €80bn to €60bn per month but the ECB added the rider that it could add to purchase order if conditions changed.

Munich Re reported Q1 net profit of €557m and said it was on track to meet 2017 objectives – a profit of between €2bn- €2.4bn. The reinsurer has struggled with low interest rates and weak reinsurance pricing due to capital abundance. Swiss Re launched a 2 for 11 rights issue priced at CHF10.8 per share aimed at boosting tier 1 capital ratios.

German Chancellor Angela Merkel is concerned over Donald Trump's NATO visit "the EU cannot

United States

Recent narrowing of US bond yield spreads suggests investors are seeing US rate increases as modest. The Dallas Fed President Robert Kaplan said he sees 2 hikes in 2017 along with Federal Reserve balance sheet reduction. The 30 year bond yield declined to 2.87% with the 2 year yield staying put at 1.28%.

The US central bank is likely to be tentative on reducing its US government, agency and mortgage debt holdings. So far little is known about the timing and quantum of the bond sales other than a plan is likely to begin in 2018.

Highly damaging disclosures relating to Jared Kushner, President Trump's son in law suggest the Russian problem runs very deep indeed. So far the scandal has yet to unsettle US equities which is surprising in my view.

One possible reason is the "overdrive" in US technology shares. The Nasdaq index has scored repeated closing highs reaching a new record of 6,217 during May – a 433% gain on its 2009 lows.

Another reason is the strong performance of the US economy, at a time of lax monetary policy.

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rely exclusively on the UK and USA going forward". This gives new impetus to the EU Army proposals bitterly opposed by the UK.

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