

April 2019 Newsletter

A Modern Stockbroker with Traditional Values



COLLINS SARRI STATHAM
INVESTMENTS

Themes from April

Occidental has made an offer to buy US oil giant Anadarko Petroleum for US\$76 per share, a deal supported by Berkshire Hathaway.

Negotiations continue between the UK government and the Labour leadership over a deal that can secure the EU Withdrawal bill.

Superdry co-founder Julian Dunkerton returned to the board following a close AGM vote. The board and its brokers stepped down in response. Dunkerton now faces the challenge of reviving the brand.

RBS reported Q1 profit down to £1.1bn from £1.21bn but is on track to meet its £300m cost reduction target.

CMA blocked the proposed merger between ASDA and Sainsbury on concerns over market dominance and pricing. Sainsbury CEO Mike Coupe claimed the regulator had "taken £1bn out of customers pockets".

Glencore announced the US CFTC was investigating its commodity trading practices. It further disclosed that over Q1 2019 its copper production fell 7%.

Indivior is facing 28 criminal charges in a West Virginia court alleging the company mis-sold Suboxone and directed buyers only to doctors it knew would prescribe its drug.

Arcadia the UK retail chain is considering a Company Voluntary Arrangement as a means of exiting onerous retail leases and making staff

Forthcoming UK Events

1 MAY	Markit / CIPS Manufacturing PMI/ Mortgage Approvals
2 MAY	BoE Interest Rate Decision/ Construction PMI
3 MAY	Markit/ CIPS UK Services PMI
7 MAY	UK New Car Sales
8 MAY	Halifax House Price Index
9 MAY	5 Year Treasury Gilt Auction
10 MAY	UK Balance of Trade/ UK GDP / UK Industrial Production
14 MAY	UK Unemployment Rate/ Average Earnings
22 MAY	UK Core Inflation/ PPI Core Output
23 MAY	UK Retail Sales
24 MAY	EU Elections

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redundant.

Performance of World Markets (30/4/2019)				
Region	Value	Change	+/- (1M)%	+/- (1YR)%
North America				
DOW JONES (Close)	26,592.91	664.23	2.60	10.30
S&P 500 (Close)	2,945.83	111.43	3.90	11.10
NASDAQ (Close)	8,095.39	366.07	4.70	13.50
Europe/UK				
UK 100 INDEX (Close)	7,418.22	139.03	1.90	-1.40
EUROSTOXX 50 (Close)	3,501.94	157.84	4.70	-1.50
Asia/Far East				
SHANGHAI COMPOSITE (Close)	3,078.34	-12.42	-0.40	-0.10
NIKKEI-225 (Close 26 April 2019)	22,258.73	1,067.22	3.50	-1.00
HANG SENG (Close)	29,699.11	647.75	2.20	-3.30

United Kingdom

China/Japan

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The de facto “Brexit” extension granted by the EU to 31st October 2019 has provided a breathing space for the UK government which has embarked on a negotiation with the Labour leadership.

Is there reason to expect Brexit to wrap up before October? This is a difficult question as the political situation is fluid, and negotiations fragile. Expectations of a quick political deal are low. The muted response in sterling suggests overseas investors are sidelined by the lack of resolution to Brexit.

As suggested by the fixed income market, the Treasury 4% 2022 gilt due March 2022 yield to maturity is just 0.742% suggesting UK base rates are seen on hold over 2019 to 2021.

Corporate news has been generally positive with BP, LSE and WPP reporting good Q1 results. 2019 so far has provided strong equity returns helped by the blue chip index starting the year very inexpensive.

Europe

Data from the Eurozone has generally shown declines in industrial production Germany (-0.4%) Spain (-1.1%), Ireland (-0.1%) whilst German purchasing managers index (PMI) for manufacturing declined to 44.1 indicating contraction. Whilst the Eurozone remains dependent on Germany the picture is one of spreading industrial slowdown, possibly linked to weaker exports due to delayed orders.

The YTD rise in oil prices from \$50 in January to \$72 per barrel, a net negative for the EU hampered GDP growth to 0.4% over Q1 2019. But both Spain (+0.7%) and Italy (+0.2%) were positive on GDP.

The Italian 10 year bond yield, long seen as a critical indicator for the Eurozone has moved steadily lower over 2019 suggesting reduced concern over Eurozone stability. The ten year yield has dropped from 3.6% to 2.56% with confidence being expressed that Malvini will not pursue an overtly anti-EU agenda.

Indeed as Notre Dame burned, the tragedy helped

The Nikkei performed strongly in the run up to the long Tokyo public holidays (April 27th to May 6th 2019) due to the new Emperor Naruhito's accession to the Chrysanthemum throne. It jumped 3.5% on a weaker Yen and optimism over US trade talks.

Reflecting on the 30 reign of Emperor Akihito which saw Japan go on a rollercoaster from boom in 1989 to stagnation over a “lost decade” during the 1990s, most commentators positively appraised the monarch’s handling of a country undergoing immense transition. Japan weathered a banking crisis, property crash and the end of the “salary man” job for life in one generation.

US President Donald Trump, after one to one talks with Japanese PM Shinzo Abe, said he hoped to clinch a deal with Japan ahead of his Tokyo visit in May 2019. The US Administration is attempting to reduce Japan’s trade surplus with the USA which is largely due to Japan’s auto exports, by encouraging Tokyo to build more US factories.

United States

As the Sino-US trade dispute winds down, there is concern the US President will turn his sights on the EU. Trump’s focus is likely to be the EU auto and aircraft sector, with the rhetoric likely to run that the EU is ripping off Americans.

The US Census Bureau reported that the US trade deficit in 2018 hit \$891.3bn up \$83.8bn. The US trade deficit, the evil the Trump Administration is trying to address, has not improved in America’s favour as a result of Trump’s policies. In fact the trade deficit has swelled due to income tax cuts that boosted American demand for foreign goods. The US goods trade deficit with China rose 11.6% to \$419.2bn in 2018 from \$375.6bn in 2017.

Recent data on US GDP +3.2% in Q1 indicated a strong trend and improvement from the 2.2% rise in Q4 2018. It suggests 2019 will see strong growth heading into 2020, an election year.

Anadarko Petroleum subject of a takeover battle between Chevron and Occidental soared to \$73 per share after Berkshire Hathaway said it would

unify France reducing protests and helping help fund the Occidental bid to the tune of \$10bn. President Macron retake the initiative.

Important Information

Key to Material Interests:

Please be aware that the following disclosures of Material Interests are relevant to this research note:

Superdry	Relevant disclosures: <1,2>
RBS	Relevant disclosures: <2>
Sainsbury	Relevant disclosures: <2>
Glencore	Relevant disclosures: <2>
Indivior	Relevant disclosures: <2>
BP	Relevant disclosures: <2>
LSE	Relevant disclosures: <2>
WPP	Relevant disclosures: <2>
Occidental	Relevant disclosures: <NA>
Chevron Corp	Relevant disclosures: <NA>
Anadarko Petroleum	Relevant disclosures: <NA>

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