

July 2019 Newsletter

A Modern Stockbroker with
Traditional Values



COLLINS SARRI STATHAM
INVESTMENTS

Themes from July

***Conservative party members** voted to appoint Boris Johnson MP as leader by a majority of almost 2:1. The new PM stated the Withdrawal Agreement was dead and the backstop provisions must be removed.

***EU** leaders have stated they will not re-open or renegotiate the Withdrawal Agreement and the Northern Ireland backstop provisions must remain.

***Sterling** slumped over July from \$1.2640 to \$1.2160 and from €1.12 to €1.092 despite the new PM on his first day stating that “those who bet against the UK will lose their shirts”.

***US Federal Reserve** lowered its key Federal Funds lending rate by 0.25% as widely expected. The board had been under pressure from President Trump to cut by 0.5%.

***Apple** confirmed its credit card offering “Apple card” will be launched in August 2019. Q3 sales rose 1% to \$53.8bn but net profit dipped 3% to \$10bn.

***BP** reported interim profit of \$4.75bn but the board left the quarterly dividend unchanged at 10.25 cents.

***Fresnillo** reported revenues fell 10.2% with profit of \$70.9m down 69.1%. EPS fell to 9.5 cents from 31.1 cents, with the interim dividend cut to 2.6 cents from 10.7 cents.

Forthcoming UK Events

1
AUG UK Interest Rate Decision/ BoE Inflation Report

2
AUG Construction PMI

5
AUG UK New Car Sales/ UK Services PMI

6
AUG UK5 YR Treasury Gilt Auction

7
AUG Halifax House Price Index

9
AUG UK Balance of Trade (June) / Q2 GDP

13
AUG UK Average Earnings/ UK Unemployment Rate

14
AUG UK Inflation Rate/ UK Retail Price Index

15
AUG UK Retail Sales

21
AUG UK Public Sector Net Borrowing

27
AUG UK Mortgage Approvals

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Performance of World Markets (31/7/2019)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	26,864.27	264.31	0.99	5.70
S&P 500 (Close)	2,980.38	38.62	1.31	5.82
NASDAQ (Close)	8,175.42	169.18	2.11	13.04

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,586.78	161.15	2.17	-2.09
EUROSTOXX 50 (Close)	3,466.85	-6.84	-0.19	-1.58

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	2,932.51	-46.37	-1.55	2.98
NIKKEI-225 (Close)	21,521.50	245.60	1.15	-3.51
HANG SENG (Close)	27,777.80	-764.82	-2.68	-4.06

United Kingdom

The appointment of PM Boris Johnson alongside a new cabinet of his “Brexit” buddies cemented the view the UK will leave the EU on the 31st October regardless. As any new EU deal must include shelving the Irish backstop, there is significant brinkmanship in this approach. Many UK businesses are unprepared for a “hard Brexit”.

Whilst it is highly likely a UK/EU deal will be concluded at some point, securing a UK/ US trade deal as the new PM has signaled will be a tough negotiation involving Congressional approval.

Whitbread’s purchase of 21% of its share capital at 4972p caused the shares to be marked down over 500p at their worst point as short sellers emerged.

China/Japan

China has imposed a ban on Chinese nationals travelling to Taiwan as individuals effective from August 1st in a move designed to influence Taiwanese elections in January. In the context of China’s clampdown on protests in Hong Kong, the Beijing government appears to be taking a more muscular approach to issues closer to home.

Nikkei 225 appears range bound short term.



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Some concern has been raised about increasing competition facing Premier Inns.

Declining global yields are impacting bank net interest margins. July saw sell offs in both challengers and High Street Banks. Lloyds reported interim pre-tax profit fell 7% to £2.9bn with a higher PPI provision ahead of the PPI deadline on 29th August 2019.

Europe

ECB chief Mario Draghi ends his eight year term on the 31 October 2019 but investors are focusing on possible measures in his last months. The central bank kept reserve interest rates at -0.4% on 25th July but expects rates at “current or lower levels until mid-2020”. This raised expectations of an ECB rate cut to -0.5%. Incoming ECB chief Christine Lagarde, current IMF chief, until 12th September, is a safe pair of hands, likely to continue Draghi’s approach in the short term.

Widespread sackings at Deutsche Bank alongside a Q2 loss of €2.8bn, has led to speculation over a Deutsche requiring further capital and another rights issue. CEO Christian Sewing is targeting a staff of 72,000 by 2022 as part of a restructuring to focus the business on its German and New York operations. However the restructuring costs at €7.4bn cannot be met from internally generated funds.

Deutsche Bank AG

7.08 EUR +0.038 (0.54%) ↑
1 Aug, 10:40 CEST - Disclaimer



source: www.google.com/finance

Takeda Pharmaceuticals jumped 7.4% to ¥3,904 after forecasting a drop in net losses for the 2020 (end March) financial year due to the growth of its blood cancer treatment.

Nomura Holdings rose 9% to ¥375 after benefiting from strong trading conditions over Q2 particularly in the US. The board is cutting \$1bn from costs with most of the savings from UK/EU operations.

United States

As expected the US Federal Reserve cut Federal Funds by 0.25% to 2%-2.25% however the accompanying language made clear the board saw the cut as a one off and not the first of a series, given the strength of the US economy. The grounds for the cut, a slower world economy, and trade tensions are not normally grounds for US monetary easing.

US President Trump displeased by the Fed’s caution on rates, was further upset by the 0.25% cut. There has been commentary that he is looking to end Federal Reserve chair Jay Powell’s term quickly notwithstanding the repercussions.

Apple Inc reported Q3 sales of \$53.8bn up 1% but net income fell to \$10bn from \$11.5bn due to higher R&D and SG & A costs. Apple returned \$21bn to shareholders, \$17bn of which was via share buybacks. Investors cheered Apple’s diminishing reliance on iPhone and higher revenue share from services (now 21.3% v 19.1%).

Apple Inc

213.04 USD +4.26 (2.04%) ↑
Closed: 1 Aug, 05:17 GMT-4 - Disclaimer
Pre-market 214.12 +1.08 (0.51%)



source: www.google.com/finance

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Key to Material Interests:

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BP	Relevant disclosures: <2>
Fresnillo	Relevant disclosures: <2>
Whitbread	Relevant disclosures: <2>
Lloyds Banking	Relevant disclosures: <1,2>
Takeda Pharmaceuticals	Relevant disclosures: <2>
Nomura Holdings	Relevant disclosures: <2>
Deutsche Bank	Relevant disclosures: <2>
Apple Inc	Relevant disclosures: <2>

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