MARKET PREVIEW

06:00 02 May 2019

Bank of England rates decision to take macro spotlight on 'Super Thursday'

Share Information

MarketTopic Synopsis:

Market Preview is published daily before trading kicks off, giving investors a roundup of macroeconomic and corporate news that is likely to move the markets along with the expected opening level of the major indices.

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Following on from the US Federal Reserve's policy decision, the Bank of England will announce its latest interest rate decision on Thursday, although economists do not expect any change from the current level of 0.75%, with a unanimous 9-0 vote again anticipated, in the face on ongoing Brexit concerns.

In a preview of the BoE Monetary Policy Committee (MPC) meeting, Howard Archer, chief economic advisor to the EY ITEM Club said: "Under normal circumstances, likely GDP growth of 0.4-0.5% quarter-on-quarter in the first quarter, a tight labour market with still robust employment growth and recent firmer earnings growth could prompt the MPC to hike interest rates from the very low level of 0.75% to 1.00% on Thursday."

"However," he added, "these are far from normal circumstances, and the MPC is likely to hold off from hiking interest rates until the Brexit situation becomes clearer and it can see how the economy is responding. Indeed, the MPC may see the extension of Brexit as prolonging the uncertainties facing the UK economy and increasing downside risks.

"While Q1 growth was likely stronger than the MPC expected, the committee will probably put this down to special factors. The weakened global economy and uncertain outlook could reinforce MPC caution. Indeed, we believe the odds currently favour the Bank of England keeping interest rates at 0.75% through 2019."

It is also a 'Super Thursday', so the latest rate decision and MPC minutes will also be accompanied by the May BoE quarterly inflation report. Archer doubts that there will be any major changes to the Bank of England's forecasts though it is possible that the Bank of England could slightly edge up their 2019 GDP growth projection after slashing it to 1.2% from 1.8% in their February inflatuion report.

Lloyds investors hope for improved quarterly performance
Away from the macro, on the corporate front there will be another big batch of blue-chip updates to digest, notably from oil major Royal Dutch Shell PLC (LON:RDSA) and lender Lloyds Banking Group PLC (LON:LLOY).

Lloyds had a weak end to 2018 so investors will be hoping for a better performance this time out. In the fourth quarter, Lloyds' statutory pre-tax profit fell to £1.03bn from £1.82bn a year ago as it set aside another £200mln for payment protection insurance compensation and spent £267mln on its restructuring.

For the first quarter results, UBS expects Lloyds' profit to rise to £1.78bn from £1.60bn on lower operating costs.

The Swiss bank predicts total income to edge down to £4.55bn from £4.58bn and the net interest margin to dip to 2.91% from 2.93% amid tough competition in mortgage lending.

While Lloyds has a good track record of keeping a tight control on costs, a key area of concern will also be bad loans.

Can we be sure of Shell?
Oil production, pricing and pay-outs will be among the key talking points from Shell's first-quarter update, which follows on from peer BP PLC's (LON:BP.) last week.

In a sector preview, analysts at Deutsche Bank said: "To some extent, the benefit of acquisitions has been offset by divestments, most meaningfully at Shell, which has guided to a c200kboe/d aggregate decline in Q1 production not least as a consequence of the sale of assets in Ireland and Denmark, which completed late in the 2018 year."

Meanwhile, RBC Capital downgraded its rating for Shell amid caution that shareholder pay-out demands could restrict the oil firm's growth ambitions. In February, it moved Shell to 'sector perform' from 'outperform' and dropped the price target to 2,750p from 2,900p.

"With ongoing uncertainty in the macro landscape and energy transition, we see Shell's dividend as too much of a burden over the medium term, meaning Shell's buyback is out of necessity, not choice," RBC analysts said in the note.

"The current commitment to buyback US$25bn over 2018-20 could reduce Shell's share count from 8,300m to 7,500m by 2020, however, we think this is just the beginning. After analysing the peer group, at today's share price we think Shell needs at least another US$30bn in buybacks in order to reduce its dividend burden to a sustainable level," they added.

Indivior struggles to continue
It has been a nightmare few months for Indivior PLC (LON:INDV), which publishes its interim results on Thursday.

Almost all of the company's money is made by Suboxone, a treatment for people with opioid addiction. But sales of the star drug have come under pressure since last summer following the launch of a couple of cut-price copycats, and investors are braced for a huge profit fall this year.

Investors will want to see sales of Sublocade - a once-monthly injection - start to pick up, although it is yet to take over the mantle from Suboxone as bosses had hoped.

If all that wasn't bad enough, shares in Indivior recently slumped to an all-time low after it was slapped with 28 charges, including healthcare fraud, wire fraud and mail fraud.

The charges relate to a long-running Department of Justice investigation which claimed Indivior engaged in a fraudulent marketing scheme to boost prescriptions of Suboxone.

Emerging markets key for Reckitt
Indivior was, until 2014, part of FTSE 100-listed Reckitt Benckiser PLC (LON:RB.), which has taken a hit from the recent goings-on over at its spin-out.

Reckitt is unlikely to comment much on the Indivior saga in its latest update also on Thursday, but it has already set aside £305mln (US$400mln) to cover potential Suboxone liabilities. Investors will be looking to see if this number has changed given the latest developments.

The company, which makes over-the-counter medicinal products such as Gaviscon and Strepsils, reported a 7% rise in annual profits last year, largely thanks to a first full-year contribution from Mead Johnson - the baby milk formula giant it bought for £13bn (US$17bn) back in 2017.

Investors, who had lost confidence in Reckitt following a number of hiccups, will want to see continued growth from emerging markets, particularly China, where performance was mixed last year. Net revenue growth of between 3-4% is being targeted from Reckitt, so keep an eye on any changes to this.

Acquisition updates eyed from Smith & Nephew
A recent run of acquisitions will likely be at the forefront of investors' minds when Smith & Nephew PLC (LON:SN.) delivers its first quarter trading update.

The FTSE 100-listed medtech firm has unveiled two acquisitions since the start of the year - Osiris Therapeutics Inc (NASDAQ:OSIR), a US firm specialising in regenerative medicine, and Leaf Healthcare, which develops technology to help prevent bedsores.

With Smith & Nephew having splashed out US$660mln on Osiris, as well as an additional undisclosed sum on Leaf, investors will be hoping for more detail on the company's plans for its new purchases.

Some may also be on the lookout for any developments on a potential US$3bn bid for US surgical instruments maker NuVasive Inc (NASDAQ:NUVA), after press reports in February said the two firms were in discussions over a possible tie-up.

Bets are off for Paddy Power update
It has been a bad few months at the races for the bookies but attentions will likely be on bigger picture corporate matters when Paddy Power Betfair plc (LON:PPB) updates the market.

Grand National winner Tiger Roll dealt the odds-makers a heavy, record breaking blow, following on from this year's Cheltenham festival which also saw several strongly backed favourites in the winner's enclosure.

The sporting results though are only something of a sideshow for investors who will be more keenly watching for updates regarding expansion, especially into the United States - UK regulatory changes will still likely be of interest too.

Indeed, it is this stateside push that was factored into the bookmaker's decision to change its name to Flutter Entertainment.

The bookmaker said the new name, which needs to be approved by shareholders at May's annual general meeting, would "reflect the increased diversity of our brands and operations", which also include Sportsbet, FanDuel, TVG and Adjarabet.

Back in March, Paddy Power's 2018 financial results revealed a 7% rise in revenue to £1.87bn (2017: £1.75bn) as it looked to emerging gambling markets amid tougher regulation in the UK and Australia. But, pre-tax profits fell by 11% to £219mln (2017: £247mln) primarily as a result of the investment in the nascent US sports betting market.

Significant announcements expected on Thursday:
Bank of England rate decision

Trading update: Lloyds Banking Group PLC (LON:LLOY), Royal Dutch Shell PLC (LON:RDSA), Paddy Power Betfair plc (LON:PPB), Reckitt Benckiser PLC (LON:RB.), Smith & Nephew PLC (LON:SN.), Indivior PLC (LON:INDV), Coca Cola HBC AG (LON:CCH), Lancashire PLC (LON:LRE), Schroders PLC (LON:SDR), Equiniti Group PLC (LON:EQN), International Personal Finance PLC (LON:IPF), Howden Joinery PLC (LON:HWDN), James Fisher & Sons plc (LON:FSJ)

Finals: Morses Club Plc (LON:MCL)

AGMs: Barclays PLC (LON:BARC)

Ex-dividends to clip 4.45 points off FTSE 100 index: London Stock Exchange PLC (LON:LSE), RELX Group PLC (LON:RELX), Rightmove PLC (LON:RMV), Unilever plc (LON:ULVR)

Economic data: UK construction PMI; US Challenger job cuts; US weekly jobless claims; US factory orders

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