

# FTSE & SMALL CAP MARKET REPORT

17:20 02 Jul 2018

## FTSE 100 closes in red as ongoing trade standoff scares investors

- FTSE 100 closed down 90pts at 7,547
- UK Manufacturing sector remains subdued
- Wall Street shares lower
- Smith & Nephew top Footsie loser

### Share Information

#### MarketTopic Synopsis:

*A report on the major benchmarks and notable risers and fallers in London. &nbsp;.*

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FTSE 100 joined European and indeed, global equities, at the start of the week to head lower as markets shunned risk amid trade war worries.

The UK blue chip benchmark shed almost 90 points to finish the day at 7,547.

Mid-cap cousin FTSE 250 was also lower, down over 225 points at 20,605.

On Wall Street, the Dow Jones Industrial Average is down over 137 points at the time of writing at 24,134. The S&P 500 was down around eight at 2,707, while the Nasdaq shed over 18 points at 7,022.

"European stock markets are in the red as trade concerns and political uncertainty in Germany are prompting traders to dump equities," said David Madden, at CMC Markets.

"The ongoing trade standoff between the US and China has triggered a wave of selling, as dealers are fearful the tariffs could impact economic growth and bring about a slowdown."

The pound lost 0.57% against the US dollar, and was down 0.09% against the Euro.

Top loser on Footsie was medical instruments giant Smith & Nephew (LON:SN.), which shed around 4% to stand at 1,341.50p. Top riser was Micro Focus International (LON:MCRO), which gained 1.51% to stand at 1,343.5p.

The company today agreed to sell its German software business SUSE to private equity firm EQTVIII SCSp for US\$2.535bn.

SUSE will be sold on a cash and debt free basis with some of the proceeds to be used to pay down Micro Focus debt. The proceeds may also be used for general

## corporate purposes and shareholder returns.

3.50pm: US trading recovers

Connor Campbell, financial analyst at Spreadex said that Dow Jones fell prey to the same fearful trading that blighted the European sessions.

He added that US manufacturing figures were well received by the dollar.

"Already boosted by its safe haven status in the eyes of investors, the greenback furthered its gains against the pound and the euro; cable was sent back towards US\$1.31 after tumbling 0.6%, while the single currency US\$1.16 following a half a percent fall," Campbell said.

3.10pm: US manufacturing growth remains strong, despite hitting 4-month low

He added: "Their currencies' respective woes helped ease the situation in the Eurozone. The FTSE, on the other hand, wasn't quite so lucky, maintaining a 1.1% decline, one that kept it the wrong side of 7600."

Around 3pm FTSE 100 was 68 points down at 7,568 while Wall Street opened lower, due to concerns of trade wars between the US and its trading partners.

Dow Jones opened 172.15 points lower at 24,105, while S&P 500 was 14.42 points lower at 2,704 and Nasdaq was 33.5 points lower at 7,476.

The Markit/CIPS US manufacturing purchasing manager's index (PMI) revealed that US manufacturing growth remains strong, despite hitting the four-months low.

The seasonally adjusted PMI index registered 55.4 in June, down from 56.4 in May, while output and new orders both expanded at the slowest rates since November 2017

"Tariffs were widely blamed on a further marked rise in input costs, and also linked to worsening supply chain delays - which hit the highest on record, exacerbating existing tight supply conditions," Chris Williamson, Chief Business Economist at IHS Markit said.

2.00pm: Micro Focus shares in demand

The FTSE 100 is 65 points lower at 7,571 points in afternoon trading, while Britain's pound fell 0.66% to US\$1.3120.

Shares in Micro Focus International PLC (LON:MCRO) were 5% higher in lunchtime trading, as it agreed to sell its SUSE software business for US\$2.5mln.

"The trimming down of the business and the promise of higher capital returns has improved investor confidence, especially in light of the profit warning in March," said David Madden, market analyst at CMC Markets.

READ: Micro Focus to sell SUSE business to private equity firm EQTVIII for US\$2.5bn Barclays to shift investment banking jobs from Britain to Frankfurt

Meanwhile Barclays PLC (LON:BARC) has begun shifting 40 -50 investment banking jobs from Britain to Frankfurt, Germany, as part of its plans to continue doing business in the European Union after Brexit, Reuters reports.

The roles will technically be employed by the bank's main European entity in Ireland, the source said.

12.20pm: Dow Jones set to fall more than 100 points

Around 12.20pm, the FTSE 100 was down 1% or 79 points at 7,557, with investors focusing on a possible trade war between the US and the European Union.

Meanwhile, the Dow Jones is set to fall more than 100 points, taking the lead from Asia and Europe.

Connor Campbell, financial analyst at Spreadex, said the Dow Jones is facing a 180 point plunge when the trading begins.

"That would force the Dow under 24,100 once again, keeping the index at the 2-ish months lows its being lurking around for the past week or so," Campbell said.

The US will also announce the June manufacturing PMI report, and the consensus estimate is 58.2, compared to May's 58.7.

"Much like in Europe, it is hard to see the day's manufacturing PMI's the final Markit reading is set to be confirmed at 54.6, the ISM figure to fall from 58.7 to 58.2 - making much of a difference to concerned investors," said Connor Campbell.

Afternoon Market Comment: Manufacturing PMIs mean little to trade war-fearing investors ... <https://t.co/tx8URSSctD>

— Connor Campbell (@ConnorSpreadex) July 2, 2018 11.00am: PMI reveals flat growth  
FTSE 100 continues to decline, down 1% at 7,565 points, while European stocks are in the red as trade war fears continue to drag on sentiment.

The pound fell 0.4% to US\$1.3157 against the US dollar, while the euro fell 0.45%.

Commenting on UK's PMI results, Lee McDarby, Corporate IP managing Director at moneycorp said that a lack of confidence may be holding back manufacturers from investing in growth.

"In normal times we would expect the weak Pound, especially against the Dollar, to have translated into higher manufacturing growth.

"These are not normal times, however. The weakness of Sterling is reflective of investor concern about Brexit and the strength of the UK economy and it could be that these same concerns are holding back manufacturers from investing in growth."

10.00am: Manufacturing PMI dull

The Markit/CIPS UK manufacturing purchasing manager's index (PMI) remained relatively subdued in June, with a reading of 54.4, almost unchanged from 54.3 in May.

The survey said the upturn remained broad-based during June and output and new orders rose across the consumer, intermediate and investment goods industries. However, the overall rate of expansion in manufacturing output slowed, as growth of new order inflows improved mildly.

Although the rate of increase in new business edged up to a three-month high, it remained among the weakest registered over the past year-and-a-half, the survey revealed.

Rob Dobson, director at IHS Markit, said: "With industry potentially stuck in the doldrums, the UK economy will need to look to other sectors if GDP growth is to match expectations in the latter half of the year."

IHS Markit/CIPS UK Manufacturing PMI [pic.twitter.com/IFwpUz6igz](http://pic.twitter.com/IFwpUz6igz)

— RANsquawk (@RANsquawk) July 2, 2018 8.40am: Sharp falls at open

The Footsie took a tumble in the first session of the new quarter, dropping back sharply, led by commodities stocks after weak Asian export manufacturing data and a retreat by oil prices.

Around 8.40am, the FTSE 100 index was down about 88 points at 7,548, having added 21 points on Friday, the final session of the first half of 2018.

Rebecca O'Keeffe, Head of Investment at interactive investor commented: "Equity markets are under significant pressure in early trading as the global trade war is expected to come into clearer focus this month."

She added: "Previously, investors have used significant market falls as a chance to buy the dips, however, with all these headwinds, it is difficult to view current market weakness as a buying opportunity."

Asian stocks fell today following purchasing managers indexes in China and Japan which showed a slowdown in manufacturing exports, with the surveys coming days ahead of President Trump's deadline for the imposition of US\$34bn worth of US tariffs on China on July 6.

O'Keefe said: "Falling Chinese exports will subdue the commodity markets, individual tariffs will markedly affect sectors and their wider supply chain, and the prospect of a downward spiral is very real."

"After largely surviving the pressure during the first half of the year with markets broadly unchanged, investors may find that the second half of the year, including the unpredictable summer months, may prove even more volatile than usual, delivering some opportunities, but increasing the threats for investors."

#### Resources stocks suffer

In London, heavyweight mining stocks led the FTSE 100 lower, with Anglo American PLC, Antofagasta PLC (LON:ANTO), Rio Tinto PLC, and BHP Billiton PLC (LON:BLT) all down around 2.6% to 2.3%.

Oil giants also were under pressure, with BP PLC (LON:BP.) and Royal Dutch Shell PLC (LON:RDSA) both off 1.3% as crude prices dropped by 1%.

Aside from trade war worries, President Trump also had a negative impact on oil markets today after he tweeted that Saudi Arabia had agreed to lift oil production by "maybe 2mln barrels".

Away from the blue chips, the markets biggest casualty was Eve Sleep PLC (LON:EVE) which saw its shares plummet over 64% after saying it would refocus its strategy on core market penetration after sales fell short of expectations in the first half of the year, which prompted its chief executive officer, Jas Bagniewski to step down with immediate effect.

The AIM-listed mattress maker said that despite trading outperforming the broader market, sales had fallen short of expectations with trading patterns experiencing greater volatility than originally expected.

#### Proactive news headlines:

Following on from two announcements in June, Greatland Gold PLC (LON:GGP), has recovered additional gold pieces from surface samples at the 100%-owned Black Hills licence in the Paterson region of Western Australia. The company now intends to accelerate its exploration efforts.

Sirius Minerals PLC's (LON:SXX) Woodsmith mine in North Yorkshire remains on track to deliver first polyhalite production in 2021.

Bacanora Lithium PLC (LON:BCN), the London-listed lithium company, has confirmed it is in the final stages of talks with a number of financing and offtake partners. As these negotiations continue, the company said it will provide updates to shareholders with its plan for the full funding for the construction of Stage 1 of the project.

Metal Tiger PLC (LON:MTR) has boosted the copper resource at the T3 project in Botswana to 60mln tonnes grading 0.98% copper and 14 grams per tonne silver to give a contained total of 590,000 tonnes of copper and 27mln ounces of silver. Separately, Metal Tiger has appointed Mark Potter as chief investment officer. Potter was formerly a director and chief investment officer of Anglo Pacific Group PLC (LON:APF).

Berkeley Energia Ltd (LON:BKY) has thanked the government of Castilla y León for its continued support of the development of the Salamanca uranium mine. This was manifest last week when the government rejected a resolution from opposition groups requesting that Berkeley's €250mln investment be halted.

Sound Energy PLC (LON:SOU) has raised net proceeds of approximately US\$14.25m from a placing of new shares to be used to strengthen the company's cash position as it initiates its high impact three well exploration programme.

88 Energy Ltd (LON:88E, ASX:88E) has suspended production testing at the Icewine#2 well in Alaska.

Kromek Group PLC (LON:KMK) said the year to the end of April 2018 was a milestone year for the radiation technology company, as revenue growth meant underlying earnings - or Ebitda - turned positive for the first time.

Avation PLC (LON:AVAP) has predicted a revenue jump in a trading update ahead of its full-year results following an expansion in its fleet of aircraft. The commercial aircraft leasing group said its business was operating in line with expectations, with revenue for the full-year estimated at around US\$109m, over 15% higher than the previous year.

StatPro Group PLC (LON:SOG) has announced it has acquired Regulatory Risk Services Bureau from Franco-German financial services group ODDO BHF, for an undisclosed sum in cash. The AIM-listed firm said that acquisition adds a full, managed service for regulatory risk reporting capability, which will use StatPro's existing Revolution platform, thus expanding the service delivery options for its clients.

The financial year just ended was "an outstanding year for organic growth", Plastics Capital PLC's (LON:PLA) chairman, Faisal Rahmatallah, said.

Lionsgold Limited (LON:LION) has said it is preparing to pilot the mobile banking app for its gold currency GOLDBLOC.

Abzena PLC (LON:ABZA) has signed GMP strategic manufacturing and bioconjugation agreements with Telix Pharmaceuticals Limited (LON:TLX), a clinical-stage biopharmaceutical company focused on the development of diagnostic and therapeutic products.

Heavy thunderstorms have temporarily disrupted operations at Mosman Oil And Gas Limited's (LON:MSMN) Arkoma project in Oklahoma.

Corero Network Security PLC (LON:CNS), the global network security company, has won a US\$500,000 order from a North American service provider.

Ergomed PLC (LON:ERGO) has announced the appointment of Stuart Jackson as the group's chief financial officer with immediate effect. The AIM-listed company, which is focused on providing specialised services to the pharmaceutical industry, said Jackson has "significant international experience in early stage and growth companies as well as managing significant and complex change projects."

Advanced Oncotherapy PLC (LON:AVO), the developer of next-generation proton therapy systems for cancer treatment, announced that Dr Sanjeev Pandya, Dr Euan Thomson and Prof Chris Nutting have stood down from the board. It added that Dr Thomson and Prof Nutting will continue to contribute to the company's development by becoming members of the Medical Advisory Board. In addition, the group said, subject to completing due diligence procedures, it will appoint Peter Sjostrand, Gabriel Urwitz, Zhang RenHua, Chunlin Han and Dr Yuelong Huang as non-executive directors, with Sjostrand to become its vice chairman.

Sure Ventures PLC (LON:SURE) has raised gross proceeds of £200,000 under the placing programme, as described in the prospectus published on 17 November 2017. The group said the ordinary shares have been issued at 100p each, which after the costs and expenses of the issue represents a premium to the last published NAV per share of 92.12p per share.

LIVE Company Group PLC (LON:LVCG) said the following dates for events in July 2018 have now been confirmed: 4 July - opening of the first BRICKLIVE Centre at the Fulong resort in China; 7-22 July - BRICKLIVE show in Rosario, Argentina with South American partner EXIM Entertainment; 10 July - launch of the first BRICKLIVE Kids Café in Dongdaemun Design Plaza, Seoul, South Korea; 12-22 July - BRICKLIVE show in Cordoba, Argentina with South American partner EXIM Entertainment; 19-22 July - BRICKLIVE show in Glasgow, Scotland with UK partner Multiplay;

26-29 July - BRICKLIVE show in Bangkok, Thailand with ASEAN partner BEC-Tero Entertainment.

6.40am: Weak start predicted

The Footsie is expected to start the first trading session of the new month, quarter, and the second-half in cautious fashion on Monday following falls from Asian markets on weak manufacturing data amid worries over the escalating trade war with the US.

Spread betting firm IG expects the UK blue chip index to open around 32 points lower at 7,594, having closed 21 points higher on Friday.

Asian markets were weak today following purchasing managers indexes in China and Japan showing a slowdown in manufacturing exports, with the surveys coming days ahead of President Trump's deadline for the imposition of US\$34bn worth of US tariffs on China on July 6.

President Trump also had a negative impact on oil markets today, sending crude prices around 1.2% lower after he tweeted that Saudi Arabia had agreed to lift oil production by "maybe 2mln barrels".

Pre-weekend on Wall Street, the Dow Jones Industrial Average closed 55 points higher at 24,271 with trading this week likely to be subdued, given the US Independence Day holiday on Wednesday and with the June non-farm payrolls due on Friday.

On currency markets, sterling was weaker against the dollar and flat versus the euro ahead of the release today of the first set of June UK purchasing managers indexes, with last month's UK manufacturing PMI report due at 9.30am.

Eve Sleep results no snooze

On the corporate front, news releases will be at premium on Monday, with the main focus for the week to be on a first-quarter trading update from supermarkets giant J Sainsbury PLC (LON:SBRY) due on Wednesday.

Among the few announcements due today, mattress retail specialist Eve Sleep PLC (LON:EVE) could provide some interest, with the firm - which listed on AIM in May last year - scheduled to deliver its first-half results.

Back in March the AIM-listed firm reported a 132% leap in revenue to £27.7m, up from £12m for the full year 2017, and a 57.7% jump in its profit margin.

The company signed a deal with BUT in France, with Next PLC's (LON:NXT) Homeware business in the UK and with Karstadt in Germany, which supplemented their partnership with UK department store Debenhams PLC (LON:DEB).

Significant announcements expected on Monday July 2:

**Finals:** Eco Animal Health PLC (LON:EAH), Mercia Technologies PLC (LON:MERC); Plastics Capital PLC (LON:PLA), Trak8 Holdings PLC (LON:TRAK), Zoo Digital Group PLC (LON:ZOO)

**Interims:** Eve Sleep PLC (LON:EVE)

**Economic data:** UK manufacturing PMI; US ISM manufacturing; US manufacturing PMI; US construction spending

Around the markets:

- Sterling: US\$1.3178, down 0.2%
- Gold: US\$1,251.30, an ounce, unchanged
- Brent crude: US\$73.24 a barrel, down 1.2%

City Headlines:

- Ratings agency Standard & Poor's has warned a shake-up in strategy at Barclays could damage the bank's

- credit worthiness, boosting the lender in its battle with corporate raider Edward Bramson - The Daily Telegraph
- Hammerson has hired McKinsey & Company as the shopping centre owner prepares to launch a strategy to shareholders next month - The Times
  - House builder Persimmon has split a £300m bonus between 130 staff, fuelling further anger over its pay this week - Daily Telegraph
  - Govia Thameslink 'could lose franchise' over rail chaos - BBC News
  - Wal-Mart-owned Asda rations sale of fizzy drinks as CO2 shortage continues - BBC News
  - Warren Buffett's Berkshire Hathaway is set to get nearly US\$1.7bn in dividends after Wells Fargo and other banks passed the Federal Reserve's annual stress tests - Financial Times
  - Nelson Peltz's Trian Partners suffered losses this year due to declines in share prices at two of America's largest companies - GE and Procter & Gamble - Financial Times
  - Marc Benioff, founder and CEO of cloud computing company Salesforce, has joined investors backing Windwards, a group aiming to shake up the marine insurance world - Financial Times
  - Activist investor Daniel Loeb has raised pressure on Nestle to shed its underperforming and non-strategic businesses - Financial Times
  - China Merchants Group has joined forces with the UK-based Centricus to launch a new \$15 billion technology investment fund with the aim of becoming China's answer to Japanese conglomerate SoftBank's Vision Fund - Financial Times
  - The fast-growing digital bank Monzo has trebled its user numbers to 750,000 in a year, but its losses jumped fourfold to £33.1m - Daily Telegraph
  - UK's pre-retirement generation faces a pensions crisis as the country hits "peak pensioner" and the wealth of future retirees is increasingly exposed to the vagaries of the stock market, the Institute for Fiscal Studies has warned - The Daily Telegraph
  - The UK has lost 50,000 jobs in the last six months, mostly in retail industry, as high street shops struggle against online rivals and other companies suffer from consumers tightening their belts - The Times
  - More than 150 estate agency firms went insolvent last year and as many as 7,000 are at risk as high street operators face the triple whammy of online competition, a sagging property market and cuts to letting fees. - The Guardian
  - Britain's listed companies have accumulated record levels of debt as they loaded up on credit to pay dividends and make investments during a period of weak profitability - The Times
  - Three quarters of big UK firms downbeat on Brexit: Deloitte survey - Reuters

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