

FTSE & SMALL CAP MARKET REPORT

17:30 24 Jul 2018

FTSE 100 closes firmly higher with miners taking the top spots

- FTSE 100 closes higher
- IMF warns that US dollar is overvalued
- Big diggers lead Footsie gainers
- China unveils stimulus plan

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MarketTopic Synopsis:

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

action@proactiveinvestors.com

FTSE 100 closed the day convincingly higher, up over 43 points at 7,709.

Resource stocks made up all of the top five gainers on Footsie and on the podium was BHP Billiton (LON:BLT), up 5.73% to 1,702.40p. Anglo American plc (LON:AAL) added 5.63% to 1,695p.

It came as Chiana unveiled its latest plan to stimulate the economy, with China's State Council saying it would pursue a "more proactive" fiscal policy.

Meanwhile, FTSE 250 was up over 82 points at 20,852.

In the currency markets, the pound was up 0.30% against the Euro at 1.1244 and up 0.28% against the US dollar at 1.3138.

On Wall Street, the Dow Jones Industrial Average is up 235 points at the time of writing and the S&P 500 is ahead by around 22.

3.30pm: IMF says US dollar is currently over-valued

The International Monetary Fund (IMF) has said that the US dollar is currently over-valued, adding that global current account balances are excessive and contributing to growth risks and trade tensions.

In its annual external sector report, the IMF cited countries including the US, the UK, Turkey, and Argentina as countries with excessive current account deficits who borrow too much, while also saying the US dollar was over-valued compared to levels implied by medium-term fundamentals, by about 8% to 16% last year.

The comments may be encouraging to US president Donald Trump, who has recently been attempting to talk down the currency, seemingly to boost the competitiveness of US exports.

In late-afternoon trading in London, sterling was up 0.3% at US\$1.3148 against the dollar.

In other news, the UK's Payments Systems Regulator (PSR) will review banks who process card transactions on behalf of merchants after concerns that customers may not be getting a good deal.

The PSR published the draft terms of its review into the card-acquiring services provided by banks which accept and process payments on behalf of a merchant for a fee.

In a statement, the watchdog said it wanted to "ensure that the supply of card-acquiring services is competitive and works of interests of merchants, and ultimately consumers".

Card spending in the UK accounts for the equivalent of around a third of Gross Domestic Product (GDP), although if the PSR finds the current system is harmful to consumers it has powers to alter the structure of the sector.

2.45pm: US stocks open higher with Nasdaq setting new record as positive earnings boost equities
Wall Street started on the front foot shortly after the opening bell as positive earnings led by the tech sector and a more general equities rally drove a new record for the Nasdaq.

The tech-heavy index was up 82 points at 7,924 shortly after the open, while the Dow Jones Industrial Average was up 148 points at 25,192 and the S&P 500 was up 20 points at 2,827.

1.45pm: Wall Street points to higher open underpinned by corporate earnings
US markets are expected to open higher on Tuesday morning as a string of losses looks set to be broken by strong corporate earnings.

In similar fashion to yesterday, tech stocks will be back in focus although this time for a different reason as investors will be hoping to capitalise on the expectation-busting results of Google parent company Alphabet Inc (NASDAQ:GOOG), whose third-quarter earnings of US\$11.75 per share blew past analysts' estimates and caused a surge in the share price.

Alphabet is the first of three companies that comprise part of the FAANG group of tech stocks which are to report this week, with upcoming results scheduled from Facebook Inc (NASDAQ:FB) and Amazon Inc (NASDAQ:AMZN).

There will also some economic data for investors to keep an eye on, with the July flash purchasing managers indexes for US manufacturing and services due later this morning.

However, hovering behind all of this is the spectre of trade, which will likely continue to cause concerns for investors after another tweet from president Trump earlier today in which he proclaimed that "Tariffs are the greatest!"

Tariffs are the greatest! Either a country which has treated the United States unfairly on Trade negotiates a fair deal, or it gets hit with Tariffs. It's as simple as that - and everybody's talking! Remember, we are the "piggy bank" that's being robbed. All will be Great!

— Donald J. Trump (@realDonaldTrump) 24 July 2018 12.20pm: Bitcoin value surpasses US\$8,000; Shell restarts production at Knarr field following rig worker strike
The world's best-known cryptocurrency, Bitcoin, has hit a two-month high and surpassed US\$8,000 in value for the first time in two months on signs of expanding institutional investment in digital currency.

The rise has been fuelled recently by reports around the impending approval of a US-based cryptocurrency exchange traded fund (ETF), as well as comments from BlackRock chief executive Larry Fink that the firm was looking into cryptocurrencies.

Despite the rise, it is still a far cry from Bitcoin's peak value of US\$20,000 last December, after which it lost more than half its value as institutional and retail interest declined.

In other news, oil major Royal Dutch Shell PLC (LON:RDSA) said its Knarr field in the Norwegian North Sea is back in production following a ten-day strike by rig workers earlier this month.

The field, which is operated by Shell but is co-partnered with Japan's Idemitsu and German oil company Wintershall, produced around 23,000 barrels per day before the strike, which was mostly comprised of oil with some natural gas liquids and gas.

11.45am: CBI data shows British factory growth rebound but investment weakens before Brexit

A business survey by the Confederation for British Industry (CBI) has reported that growth across factories in the country recovered over the three months to July after a weak start to the year.

The CBI's quarterly gauge of factory output rose to +27 in July, a one-year high and up from +13 in April. Between June and July, the gauge cooled slightly to +11 from +13 the previous month.

However, the survey also indicated that manufacturers were increasingly reluctant to invest ahead of Brexit, particularly for productivity-boosting measures, deteriorating heavily in the three-month period.

Rain Newton-Smith, chief economist at the CBI, said: "The pick-up in output growth is good news and with new orders still running at a healthy rate, the near-term outlook for manufacturers remains reasonably bright".

She added that despite the pick-up in output, manufacturers were still in "wait-and-see mode" regarding investment plans as skills shortages were increasing and making it hard for businesses to invest in capital projects "particularly with on-going uncertainty around the direction of Brexit talks".

As the morning drew to a close, the FTSE 100 was up 65 points at 7,720.

10.45am: FTSE 100 pushed higher in mid-morning as German manufacturing rebounds and China seeks domestic stimulus

The Fointsie has shaken off a slower start to rise around 60 points in mid-morning trading as an unexpected rebound in German manufacturing and a push by the Chinese government for an infrastructure stimulus.

In the latest manufacturing activity report from IHS Markit, the German purchasing managers index (PMI) upturned unexpectedly to 57.3 in July from 55.9 in June, while the country's Composite Output Index hit a five-month high at 55.2 in July, up from 54.8 in June.

After declining all year, German manufacturing PMI increased in July to 57.3, pulling up the composite index despite a decline in services. Same movement in French PMI (although composite declined), while INSEE-index showed another decline in manufacturing optimism. #macrobond pic.twitter.com/U4r5YkpuZA

— Ulrik Bie (@UlrikBie) 24 July 2018

Meanwhile, London's mining stocks were buoyed by a package of policies unveiled by the Chinese government to boost infrastructure investment and domestic demand as trade tensions with the US escalate.

Several FTSE 100 mining stocks were up following the news, Glencore PLC (LON:GLEN) up 2.6% at 318.2p in mid-morning, while fellow index constituents Rio Tinto PLC (LON:RIO) and Antofagasta PLC (LON:ANTO) were up 2.8% at 4,177.5p and up 1.7% at 958.2p respectively.

Chris Beauchamp, chief market analyst at IG said: "Over the past week markets around the globe have struggled to make much headway, but today this trench warfare appears to be resolving in favour of buyers. London's mining contingent are clearly fans of China's promise of more infrastructure spending, as the sector rises by an average of 2%".

The FTSE 100 was up 63 points at 7,719.

10.00am: ECB says Eurozone banks see rising loan demand and easing credit standards in third-quarter

The European Central Bank (ECB) has said banks in the Eurozone are expecting demand for corporate and household loans to increase in the third quarter with credit standards easing.

Commenting on the quarterly survey, which included 149 lenders in the currency bloc, the ECB said internal guidelines

or loan approval criteria for corporate, household and consumer loans, and credit standards had all eased over the second quarter.

The results follow a decision by the ECB last month to wind down its bond purchasing programme in which it has bought around €2.5trn in public and private bonds and pushed borrowing costs to record lows.

The ECB agreed to the wind down after household and corporate lending moved back to nearly post-financial crisis highs, satisfied that inflation was moving back towards its target of just under 2%.

In the UK, a report from The Times said around 1mln public sector workers will receive their biggest pay rise today.

Without citing sources, the paper said teachers will receive pay increases of 3.5%, backdated to April, while members of the armed forces will be given rises of 2% with a 0.9% bonus for the current financial year.

The rise marks a welcome change for many from the public sector pay freeze that had endured since 2010, capping wage increases to 1% a year from 2013.

9.30am: Iran says it will respond in kind if US tries to block oil exports

The Iranian foreign ministry has said it will respond with countermeasures if the US attempts to block oil exports from the country.

Speaking to the Iranian state news agency IRNA, foreign ministry spokesman Bahram Qassemi said: "If America wants to take a serious step in this direction it will definitely be met with a reaction and equal countermeasures from Iran."

The comments follow recent diplomatic efforts by US officials to pressure countries to stop importing Iranian oil, as well as a late-night Twitter outburst against the country by US president Donald Trump.

A suggestion by Iranian president Hassan Rouhani that Iran might block oil exports from the Gulf if its own exports are stopped has already received the backing of supreme leader Ayatollah Ali Khamenei.

In early morning trading Tuesday, Brent crude was up 0.1% at US\$73.18 a barrel.

8.45am: Fotsie finds gains

The FTSE 100 edged 10 points higher in early trade to 7,665.67, buoyed by the stronger performances of the Asian and US markets.

The miners were the top performers led by Evraz (LON:EVR), Rio Tinto (LON:RIO) and Glencore (LON:GLEN), which posted gains of 1.2-2.3%.

They were buoyed by news the Chinese authorities are pumping billions to support commercial lending and by extension, domestic economic growth.

The fortunes of large international diggers are closely aligned to the ups and downs of the world's second largest economy with the People's Republic the globe's biggest importer of raw materials.

There were buyers in the market for Royal Mail Group (LON:RMG) in the wake of last week's mixed quarterly results as the shares nudged 1.9% higher.

There was also some interest in ITV (LON:ITV) ahead of interims tomorrow.

"We expect ITV to provide a beat versus [first-half] guidance at the results on Wednesday with the World Cup and Love Island leading to a very strong June and July advertising performance," said City broker Liberum.

Shares in Superdry (LON:SDRY) fell 8% after co-founder Jamie Dunkerton offloaded a £71mln line of stock in the

fashion group.

The entrepreneur started out in 1985 with a Cheltenham market stall called Cult Clothing, bankrolled by a £2,000 parental loan. Floated eight years ago as Supergroup, the business had a price tag of £400m, but is worth £1.1bn today.

Proactive news headlines:

Avacta Group PLC (LON:AVCT) has agreed a major co-development partnership with a US business. It is teaming up with Bach BioSciences, a company commercialising the research of William Bachovchin, a professor at Tufts University School of Medicine, Boston.

MySQUAR Limited (LON:MYSQ) has launched its second massively multiplayer online role-playing game (MMORPG) in Myanmar.

Live Company Group PLC (LON:LVCG) said it is launching its BRICKLIVE brand in the Dominican Republic, while also bolstering its presence in South Korea.

Rainbow Rare Earths LTD (LON:RBW) sold 350 tonnes of rare earth concentrate in the three months to end June 2018, up significantly from the 125 tonnes sold in the previous quarter, as the ramp-up to full production continues.

Highlands Natural Resources PLC (LON:HNR) has reported its first revenues during what was a "transformational" six months for the junior oiler. The London-listed firm brought two wells on stream at its East Denver Niobara project in Colorado earlier this year, generating £2.9m during the four months ended March 31, 2018 (2017: Nil).

Learning Technologies Group PLC (LON:LTG) has traded in line with expectations this year and has seen an encouraging increase in recurring revenues.

Sound Energy PLC (LON:SOU) has confirmed the start of civil works in preparation for the planned drilling of the TE-9 well, within the Tendrara licence onshore Morocco. The first stage of civil works sees the construction of an access road to the well site. The explorer also told investors that it has now signed a rig contract for the programme.

Chariot Oil & Gas Limited (LON:CHAR) chief executive Larry Bottomley told investors that the focus for the remainder of 2018 is on the delivery of safe and cost-effective drilling operations in Namibia. The company also continues to seek partnerships throughout its portfolio, mature its exploration prospects and ultimately deliver further funded drilling opportunities.

Savannah Resources PLC (LON:SAV) has appointed experienced lithium consulting engineer Primero Group to lead the feasibility study for the development of the Mina do Barroso lithium project in Portugal.

Custodian REIT PLC (LON:CREI) saw its net asset value per share (NAV) climb to 107.8p at the end of the second quarter. The NAV started the quarter at 107.3p. With a dividend of 1.6375p approved for the period, the NAV total return per share for the quarter was 2.0%.

Europa Oil & Gas Holdings PLC (LON:EOG) has updated on the planning process for the Holmwood project, as it submits an application to make new variations to its proposals. For the proposed exploration well site, the company is now seeking to extend the temporary period of the permission for the well site by a further 3 years.

Jersey Oil & Gas (LON:JOG) has been advised that drilling of the Verbier Well in the UK Continental Shelf region of the North Sea has been pushed back a few months. Originally, the plan was to drill the appraisal well this quarter, but operator Equinor (the new name for Statoil) says Verbier will now be the third well in a UK drilling campaign using the West Phoenix rig as opposed to the first.

6.45am: Footsie set to edge higher

The Footsie is seen edging higher on Tuesday, rallying a touch after Monday's falls, thanks to steadier performances

overnight from US and Asian markets.

Spread betting firm London Capital Group expects the FTSE 100 index to open around 24 points firmer at 7,679, having shed 23 points on Monday.

Overnight on Wall Street, the Dow Jones industrials recouped most of its earlier falls to close around 13 points lower at 25,044, while both the broader S&P 500 and tech-laden Nasdaq composite indexes managed to notch up modest gains.

After-hours in the US, internet giant Alphabet, the parent of Google (NASDAQ:GOOGL) posted stellar results, pushing its shares up to a record high and giving a boost to tech stocks in Asia.

Meanwhile, Shanghai shares seemed to get a boost from news Beijing would adopt a more "vigorous" fiscal policy, including company tax cuts, sending Chinese blue chips 1.6% higher to a one-month high.

On currency markets, sterling remained steady against both the dollar and the euro, recovering after recent falls with little on the data front to trouble traders.

Drinks on offer

On the corporate front, investors are likely to pour over trading updates from soft drinks firm Britvic PLC (LON:BVIC) and brewer and pubs operator Fuller Smith & Turner PLC (LON:FSTA), as well as first-half results from mixers firm Fevertree Drinks PLC (LON:FEVR).

CO2 shortages in the UK, a rainy June in France and strikes in Brazil means that Britvic's third quarter update will likely be somewhat softer than would have been anticipated a few weeks ago.

Deutsche Bank expects the FTSE 250-listed firm to report a 0.5% decline in organic sales - excluding the pricing effect of the UK sugar tax pass-on - although reported sales are seen at £381m, up 6.8%.

Fevertree outlook key

Meanwhile, Fevertree's interims will all be about the outlook, particularly for its US operations, which the group took overall control from 1 June 2018.

Despite the current warm weather, analysts expect a moderation in growth in Fevertree's mature UK market for the full year, and will look for any CO2 shortage impact.

However, by contrast, Fuller's first quarter trading update should be strong, in Peel Hunt's view, with managed pubs like-for-likes (LFL) sales ahead of their full-year forecast of 2.0% and the 2.5% increase seen in the first nine weeks' of the year.

The City broker thinks that the FTSE small cap firm's sales should have benefited from the hot weather and the World Cup, given that 82% of its estate is not food-led and 90% of the managed pubs offer outside drinking.

Hammerson under pressure

Away from the pubs and drinks firms, real estate groups will also be a focus with first-half numbers due from Hammerson PLC (LON:HMSO), a day after the FTSE 250-listed firm offloaded two retail parks for £164m.

It has been a very eventful period for Hammerson, albeit with very little accomplished after the firm's all-share offer for fellow mid-cap Intu Properties PLC (LON:INTU) fell by the wayside following a takeover proposal for Hammerson itself from French firm Klepierre, which was rejected.

Elliot Capital Advisors, the US activist investor, has now built up a 5% stake in Hammerson and will likely push for change if unimpressed by the strategy presented at the interims.

Peel Hunt forecasts Hammerson reporting net asset value (NAV) growth of around 2% over the full year, however, it wouldn't be surprised to see half-year valuations see a hit, especially given the recent 11% write-down by Land Securities PLC (LON:LAND) of the Bluewater shopping centre.

Significant events expected on Tuesday July 24:

Trading update: Britvic PLC (LON:BVIC), Fuller Smith & Turner PLC (LON:FSTA), Wizz Air Holdings PLC (LON:WIZZ)

Interims: Hammerson PLC (LON:HMSO), Fevertree Drinks PLC (LON:FEVR), Drax Group PLC (LON:DRX), Centaur Media PLC (LON:CA), Gresham Technologies PLC (LON:GHT), Huntsworth PLC (LON:HNT), Proteome Sciences PLC (LON:PRM); Science Group PLC (LON:SAG), Spectris plc (LON:SXS), Unite Group PLC (LON:UTG)

Finals: IG Group PLC (LON:IGG), PZ Cussons PLC (LON:PZC), Highlands Natural Resources PLC (LON:HNR), The Fulham Shore PLC (LON:FUL), Victoria PLC (LON:VCP)

AGM: Halfords PLC (LON:HFD)

Economic data: CBI industrial trends survey; US FHFA home price index; US composite PMI

Around the markets:

- Sterling: US\$1.3090, down 0.1%
- Gold: US\$1,224.00 an ounce, unchanged
- Brent crude: US\$67.66 a barrel, down 0.3%

City Headlines:

- Barclays is creating 2,500 jobs in Glasgow at a new technology hub, doubling its Scottish workforce - Daily Mail
- Serco has filed a legal challenge to Capita's deal to operate British military fire stations, stalling the biggest placing of a public sector contract in the hands of a private sector operator since the collapse of Carillion - The Times
- Google's owner Alphabet smashed Wall Street's forecasts with its second-quarter results despite a record fine from the European Commission wiping out nearly two-thirds of its profit - The Times
- Tesla stocks fell almost 5% after the electric automaker was reported to have asked some US suppliers to return payments to the money-losing company - The Guardian
- Facebook is investing in two new buildings in King's Cross to double its UK office capacity. - Daily Telegraph
- KPMG has appointed risk management chief to oversee both its risk and legal operations in the UK, as the Big Four auditor grapples with a string of accounting scandals - Financial Times
- US banks are urging the British government to cut corporate taxes and red tape to stop financial assets and jobs pouring out of the UK after Brexit - Financial Times
- The UK government is expected to announce more than half a billion pounds worth of financial support over the next decade under energy plans to ensure nearly a third of Britain's power is generated by offshore wind turbines by 2030 - The Daily Telegraph
- The UK government is preparing plans for an increased scrutiny of foreign takeovers in the UK industries that present national security concerns - Financial Times
- Fears of global trade war scared markets with European investors pulling cash from mutual funds at the fastest rates in almost five years in June, withdrawing €38.3bn - Financial Times

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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