

FTSE & SMALL CAP MARKET REPORT

17:40 01 Feb 2019

FTSE 100 closes day and week higher as traders digest US jobs number

- FTSE 100 closes up 51
- US unemployment rate rises to 4.0% from 3.9%.
- The US economy added 304,000 new jobs in January, well above the 165,000 economists were expecting

FTSE 100 closed higher Friday as US benchmarks were generally higher and as commodity stocks continue to bolster the index.

The UK's index of leading shares added over 51 points at 7,020. On the week as a whole, the top share index was up around 3%.

The FTSE 250 added over 99 points to 18,811.

David Madden, analyst at CMC Markets, noted that a "solid performance from commodity related companies has lifted the market yet again".

Today saw the release of the closely watched US monthly jobs number, which had injected volatility into the market, said Madden.

"The report showed that 304,000 jobs were added in January, but there was a major downward revision to the December report, which casts doubt over today's figure. The December figure was revised down to 222,000 from 312,000. A report claimed there was a surge in US government workers seeking part-time jobs to compensate for the government shutdown."

On Wall Street, the Dow Jones Industrial Average is up almost 105 points at the time of writing, while the Nasdaq shed around four points.

3.40pm: US-China trade talks making progress, says White House

White House Economic adviser Larry Kudlow has told Fox News that progress has been made on trade talks with China.

He said: "We covered a lot of specifics, and so I think it's a hopeful story right now, but much work is still in front of us".

US stocks are sitting slightly higher in early trading with the Dow Jones Industrial Average up 146 points and the Nasdaq and S&P 500 both up 8 points.

Investors are digesting better-than-expected US jobs report released earlier.

They are also mulling over two separate manufacturing reports from ISM and Markit.

The final reading on the US manufacturing purchasing managers' index for January was left at 54.9, above the 50 level that signals an expansion in sector activity.

The ISM manufacturing index rose to 56.6 in January from 54.3, beating forecasts of 54.2.

Meanwhile, the University of Michigan's consumer-sentiment index dropped to a reading of 91.2 in January from 98.3 in December. It marks the worst reading since Donald Trump was elected president.

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MarketTopic Synopsis:

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

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3.00pm: US jobs report 'far from perfect, says analyst
On the US jobs report, one analyst thinks it is "far from perfect".

"The big downward revision to December's new jobs total takes the shine off January's headline figure. And wage growth remains disappointingly weak for such a tight labour market," said David Lamb, head of dealing at Fexco Corporate Payments.

"More people are being tempted back into the labour force - the rise in the participation rate proves that - but employers aren't paying over the odds to get them.

"All this means inflationary pressure is modest, and the Federal Reserve will feel no hurry to push through its next interest rate hikes.

2.00pm: UK shares edge higher
UK equity investors have responded to the US jobs report with studied indifference.

The FTSE has added about 10 points following the non-farm payrolls release, boosting the gain on the day to 23 points (0.3%) at 6,992.

"Mixed news for the US labour market today despite the Non-Farm Payroll figure beating market expectations," suggested Anthony Kurukgy, the senior sales trader at Foenix Partners.

"As the FED continue to adopt a 'wait and see' approach to monetary policy this year, continued signs of a global slowdown will keep policy makers cautious. Today's Average Earnings print having missed forecasts, proves that it isn't just the rest of the world the FED need to vigilant of," he added.

On the foreign exchange markets, the US trade-weighted dollar index was up 0.09 at 88.74. Sterling was down more than half a cent (0.58 cents) against the greenback at US\$1.3054.

USD/CAD drops toward 1.3100 despite strong NFP data <https://t.co/LLsconiPPd> #USDCAD #Majors #NFP

— FXStreet News (@FXstreetNews) February 1, 2019 1.30pm: US jobs report springs a surprise
The US economy added 304,000 new jobs in January, well above the 165,000 or so additions economists were expecting.

The unemployment rate rose to 4.0% from 3.9%. Average hourly earnings for all employees on private non-farm payrolls rose by 3 cents to US\$27.56, following a 10-cent gain in December. Over the year, average hourly earnings have increased by 85 cents or 3.2%.

Payroll employment increases by 304,000 in January; unemployment rate edges up to 4.0% <https://t.co/NsuHovcqn0> #JobsReport #BLSdata

— BLS-Labor Statistics (@BLS_gov) February 1, 2019
The FTSE 100 moved little on the news; it was up 14 points at 6,983.

No acceleration in hourly earnings (3.2%) #NFP .. basically good news for US corporate margins.. which BTW are actually not behaving 'late cycle' at all compared to other NBER expansion phases.. pic.twitter.com/uei3gpXxSG

— Peter van der Welle (@pvanderwelle) February 1, 2019 12.45pm: Gains evaporate
Put the champagne back on ice; the Footsie is back below 7,000 and in danger of slipping into the red.

The FTSE 100 was up 9 points at 6,977.

"Briefly crossing 7000, the FTSE ended up settling back below that key level as its gains were trimmed to 0.2%. The reason it surpassed 7,000 in the first place was sterling's accelerated losses against the dollar and the euro; falling

0.4% and 0.5% respectively, the pound was hurt by a weaker than forecast UK manufacturing PMI and the subsequent warnings that the sector could easily slip into recession," was Connor Campbell's analysis at Spreadex.

"Turning to the US open and the Dow Jones is set to start the session back above 25,000. Or, at least, it does at the moment; how it actually performs after the bell is likely dependent on the latest non-farm jobs report. The headline figure is expected to drop from 312k to 165k month-on-month, while wage growth is forecast to fall from 0.4% to 0.3%," Campbell noted.

Non-Farm Payrolls Preview: When the facts change so will the perception <https://t.co/7cDo8j3Fpg> by @josephrevisani #NFP #forex #trading pic.twitter.com/ETtZ0ltMp6

— FXStreet News (@FXstreetNews) February 1, 2019 11.30am: TalkTalk pessimism returns broadband provider to the doghouse

Although the US jobs report this afternoon may change things, the Footsie is making a decent fist of cementing its position above 7,000.

The top-shares index was up 45 points (0.7%) at 7,014.

Optimism over apparent progress made in the trade talks between the US and China continues to fuel the market's advance.

"Trade talks between the US and China in Washington appear to have gone very well, with trade representative praising the 'substantial progress' on various issues and Trump himself expressing optimism at the prospect of the 'biggest deal ever made'. Both sides will be hoping that enough progress will have been made by later this month when Trump and Xi are expected to meet to confirm a deal," said Craig Erlam at Oanda.

"Trump will be particularly keen to divert attention away from the government shutdown and onto a good news story after he was forced to back down and reopen government without funding for the wall. Of course, the fight is not over for the wall but a deal with China will certainly take the pressure off.

"That brings us nicely to the US jobs report, which is scheduled to be released today, despite the delays to other data releases because of the shutdown. The shutdown itself is not expected to have a direct impact on the non-farm payrolls figure, but there may be less significant indirect impacts that weigh on the number. With that in mind, it would take quite a horrible number to grab people's attention, with investors most likely shrugging off the data as an anomaly," Erlam predicted.

On the UK corporate news front, Talktalk Telecom Group PLC (LON:TALK) was sticking out in a generally buoyant FTSE 250 like a mobile phone going off at a funeral.

The shares were down 6.3% at 104.6p after the company warned its drive to attract new customers and changes in how it books revenues will put a £15m dent in its earnings.

"As today's profit warning reveals the company is achieving customer growth, even beating expectations on this metric, but only by offering deals to entice people onto its network," commented Russ Mould at the investment platform operator, AJ Bell.

"While this means the company is on track to beat its 150,000 target for new broadband customers for the financial year, it looks set to come at the cost of margin pressure.

"The company is also struggling to get more out of its customer base with average revenue per user dropping slightly year-on-year.

"Accounting changes are another factor behind the earnings shortfall as well as spend on providing fibre connections directly to households (FTTP). Some analysts have raised concerns about the risks and costs associated with building

an FTTP network," Mould observed.

10.15am: Trade talk optimism fuels rise in European benchmarks

Investors were choosing to take an optimistic view on the progress of US-Sino trade talks.

European benchmarks were on the rise, among them the FTSE 100, which was up 32 at 7,001.

"Trump's tweet that China is planning to buy more soya beans has been taken on face value as a sign of progress between the two sides; however, with the US the largest producer of soya beans, this is merely a case of China seeking to meet their needs rather than actually giving any concessions on areas which the US has faced an unfair disadvantage in," commented Joshua Mahony at IG Group.

"Meanwhile, UK manufacturing weakness dented the pound in a week that has seen the bullish GBPUSD trend come under pressure. The manufacturing PMI would have been worse if it had not been for stockpiling that is currently taking place ahead of the Brexit deadline, with new export business stagnating. With stocks of inputs rising at the sharpest rate on record, this is the first clear sign that businesses are making real preparations for a no-deal Brexit," Mahony added.

Just 13 FTSE 100 constituents were in the red as the blue-chip index moved past the 7,000 level for the first time since November.

Glencore Q4 Copper production +27% YoY, Cobalt +6% (stockpiled due to export ban for Uranium separation), Zinc +7%, Nickel +16%. FY19 guidance unchanged vs 3 Dec presentation. DRC halts development of Uranium-Cobalt ion separator which was expected to help resume cobalt exports.

— Mike van Dulken (@Accendo_Mike) February 1, 2019

Miner and commodities trader Glencore PLC (LON:GLEN) was among the losers after a fourth-quarter production update that included unchanged production guidance for 2019.

An opinion piece in today's Financial Times suggested that the group's valuation is likely to be held back by environmental, social and governance concerns, despite its huge interests in metals for electric cars.

Glencore's #coal-stained black flag snags in investors' #ESG screens <https://t.co/PpH1VzfAvn>

— Jeanne Martin (@JeanneMartin25) February 1, 2019 8.45am: The Footsie homes in on the 7,000 level

The FTSE 100 closed in on the 7,000 - a landmark last seen in November - as it opened 26 points higher at 6,994.43.

The mood appeared to be one of wait and see in the City as ahead of the US jobs report later and with traders also keeping a weather eye on Sino-American trade talks.

The morning's big mover was TalkTalk (LON:TALK), which fell 9% following a profit warning.

After the recent positive run for miners, investors booked some profit on Glencore (LON:GLEN) following its results. The shares fell 1.5%.

Finally, Metro Bank (LON:MTRO) bounced 4% as the selling final appeared to abate following an accounting error.

6.45am: Wait-and-see posture to be adopted

Traders look set to adopt a wait-and-see posture ahead of the US jobs report for January, due out later today.

After closing last night at 6,969, up 27 points, the FTSE 100 was expected to open this morning at about the same level.

"Markets are set to digest the results of the US-China trade negotiations this morning after the two sides agreed to

continue talks in February," observed Danske bank.

"Later today all eyes turn to the US employment report and ISM manufacturing. We expect unemployment to rise due to the government shutdown. When it comes to payrolls, it is unclear whether the shutdown affects this, so focus is likely to be on private employment, which should be unaffected. Wage growth is also likely to draw attention. We look for a decline from 3.2% y/y to 3.1% y/y, which would cement the view that the Fed is firmly on hold now.

"The ISM manufacturing index took a big dive in December. We expect it to fall a bit further in January from 54.3 to 54.0," the bank revealed.

In Asia, stocks in Hong Kong retreated after the Chinese Caixin PMI manufacturing index fell more than expected to 48.3 in January from 49.7 in December. It was the lowest level since February 2016.

Nearing the close of trading, the Hang Seng index was down 74 at 27,868.

In Tokyo, the Nikkei 225 was 15 points higher at 20,788.

US benchmarks had a mixed day yesterday with the Dow Jones sliding 15 points to 24,500 and the S&P 500 rising 23 points to 2,704.

On the home front, Friday is normally a quiet day but today looks like being an exception.

Miner and commodities trader Glencore PLC (LON:GLEN) issues a fourth-quarter update, with shareholders still vexed over a corruption investigation launched by the US Department of Justice over summer and the political situation in the Democratic Republic of Congo.

The company might seek to mollify the market by announcing further share buybacks.

"We expect an increase to the existing buyback and forecast a further US\$3bn in 2019 on top of the already announced US\$2bn," Deutsche Bank said.

Broadband and telecoms provider TalkTalk will be hoping to post a better start to the second half on Friday as it reports third-quarter results.

The FTSE 250 group saw its first-half revenues dip in November mainly due to the decision to close its mobile virtual network operations in 2017.

Analysts at UBS are expecting "slight quarterly revenue growth" on the back of solid net adds performance and stabilisation of average revenue per user (ARPU).

Significant announcements expected

Trading update: Glencore PLC (LON:GLEN), TalkTalk Telecom Group PLC (LON:TALK), Euromoney Institutional Investor PLC (LON:ERM), RPC Group PLC (LON:RPC)

Economic data: UK manufacturing PMI; UK international trade in services; US non-farm payrolls; US ISM manufacturing; US manufacturing PMI; US construction spending; US University of Michigan final consumer sentiment

Around the markets

- Sterling: US\$1.3104, down 0.07 cents
- 10-year gilt: 1.117%
- Gold: US\$1,322.80 an ounce, down US\$2.40

- Brent crude: US\$60.93 a barrel, up 9 cents
- Bitcoin: US\$3,422.73, down US\$22.59

Proactive news headlines

AfriTin Mining Limited (LON:ATM) said it is expecting maiden tin and tantalum concentrate production from its phase 1 pilot plant project at the Uis mine in Namibia in the second quarter of 2019 following additions to the plant.

Greencoat UK Wind PLC (LON:UKW) has agreed to acquire a stake in the Stronelairg and Dunmaglass wind farms from FTSE 100 utilities firm SSE PLC (LON:SSE).

Real Good Food PLC (LON:RGD) has sold off its Chantilly Patisserie to the premium bakery's management team for £200,000 in cash. The sale means Real Good Food is now free to focus on its two profitable businesses - cake decoration and ingredients.

Baker Steel Resources Trust Ltd. (LON:BSRT) has acquired a 0.75% gross revenue royalty on future coal production from the Wilton and Fairhill projects in Queensland, Australia. The consideration is A\$6mIn.

Technology group Telit Communications PLC (LON:TCM) said it has granted the Chinese buyer of its automotive division a short extension to complete the US\$105mIn deal.

Charat Gold PLC (LON:CGH) has improved the terms for the US\$40mIn loan that will pay for the Kapan mine in Armenia.

Wealth and investment management specialist Kingswood Holdings Limited (LON:KWG) said it is paying up to £3.3mIn for an Oxfordshire-based financial advisory firm.

Cabot Energy PLC (LON:CAB) updated on its financial position following a "managed, thorough and pragmatic review" of its outstanding and overdue trade creditors.

Providence Resources PLC (LON:PVR) told investors that a drill rig has been selected for an upcoming drill programme at the Barryroe oil field in the Celtic Sea, offshore Ireland.

United Oil & Gas Plc (LON:UOG) has given investors details from a new third party assessment of two of the company's assets - the Crown oil discovery asset in the North Sea and the Waddock Cross field in the Wessex basin.

PowerHouse Energy Group PLC (LON:PHE) has announced that chief executive Keith Allaun has resigned with immediate effect amid "extenuating personal circumstances".

Business headlines Financial Times

Eight unnamed banks have been accused by Brussels of collusion over trading strategies in euro-denominated paper

Buying of gold by central banks has hit a 50-year high

The Times

Amazon registered another record profit last night as it beat Wall Street's fourth-quarter forecasts but gave investors cause for concern with a disappointing outlook.

President Donald Trump has insisted that the US and China have a "very good chance" of reaching a "very comprehensive" trade agreement, but dashed hopes of an imminent breakthrough.

General Electric will pay \$1.5 billion to settle sub-prime mortgage charges and reported better sales and revenue than expected in the fourth quarter.

Metro Bank's shares plummeted almost 40% after the lender admitted that it was the Bank of England that found a flaw in its accounts despite previously insisting it spotted the error itself.

Asda has lost a key battle in its fight against an equal pay claim by thousands of shopworkers - mostly women - who want to be paid the same as warehouse workers - mostly men.

Grant Thornton, the auditor of Assetco, which nearly collapsed amid an accounting scandal in 2011, has been ordered to pay more than £21 million in damages to its former client for negligence "of the utmost gravity".

The Daily Telegraph

Ineos's attempt to tighten its hold on the North Sea failed after talks with US giant ConocoPhillips over a multi-billion dollar sale collapsed.

Npower will cut 900 jobs over the next year in a bid to cut costs in the face of the Government's energy price cap and looming financial losses.

Heavily criticised business rates system faces a new inquiry by MPs amid warnings that a further 100,000 shops will close this year.

Daily Mail

Sales at H&M jumped 8% in the UK last year, fuelled by a surge in spending online.

The Guardian

Siemens UK boss Jürgen Maier has accused the government of being as divided over its industrial strategy as it is over Brexit.

Italy's economy slipped into recession in the final three months of 2018.

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