

# FTSE & SMALL CAP MARKET REPORT

17:35 23 May 2019

## FTSE 100 closes firmly in the red as traders mull trade tensions and German manufacturing data

- FTSE 100 index closes firmly in red
- US markets slide
- Mid-cap index also plunges despite warm reception to updates from M&B and Serco

FTSE 100 joined global indices to head lower on Thursday as traders continue to fret about trade and the Brexit chaos just won't go away.

The UK benchmark closed down around 103 points lower at 7,231, while the mid-cap index, the FTSE 250 tanked 276 points at 19,031.

The German DAX shed around 216 points at 11,952, while the French CAC 40 lost around 97 at 5,281.

David Madden, analyst at CMC Markets, said: "European stock markets are suffering today as the US-China trade tensions have increased. There are no planned meetings between both sides, and that is sending out a very negative message."

Madden added that the 90 day delay in relation to the Huawei ban had helped stocks at the start of the week, but that now felt like a long time ago.

"Adding to the selling pressure was the dreadful manufacturing numbers from Germany. If the powerhouse of Europe is suffering, that is likely to ripple out across the region."

3.45pm: Trade tensions cast long shadow

The Footsie was looking at finishing with a triple-digit fall entering the last hour of trading as tensions between the US and China rose.

The FTSE 100 was down 117 points (1.6%) at 7,217 - pretty much its low point for the day.

"The suggestion by the Chinese Ministry of Commerce that trade talks can't continue unless the US 'with sincerity, adjusts its wrong actions' - alongside a more aggressive rhetoric from the country's state media, accusing Trump's government of 'bullyism' and being 'delusional' - ensured the market's losses were going nowhere on Thursday," commented Connor Campbell at Spreadex.

"Falling as much as 400 points after the bell, the Dow Jones wasn't shy in showing its nerves. The US index is now trading the wrong side of 25400, undoing the gains made in the last week and a bit in one fell swoop," he added.

The afternoon at least saw sterling stage a rally against the US dollar, although that may have had more to do with the foreign exchange market's view of the dollar; after falling to around US\$1.2629 at the end of the lunchtime trading session sterling had recovered to around US\$1.2653.

It was not just the blue-chips getting it in the neck today; the mid-cap FTSE 250 was down 285 points (1.5%) at 19,022 despite positive reactions to news from pubs group Mitchells & Butlers PLC (LON:MAB) and outsourcing giant Serco PLC (LON:SRP).

The former rose 8.7% to 263.5p after it reported year-on-year like-for-like sales growth of 4.1% in the first half of its financial year.

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#### MarketTopic Synopsis:

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

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Serco rose 7.8% to 130.6p despite announcing a £130mln share placing to help fund the acquisition of the naval engineering arm of US defence technology group Alion.

Theme parks operator Merlin Entertainments PLC (LON:MERL) jumped 6.9% to 355.4p after it was urged by activist investor ValueAct to take itself private.

2.45pm: US markets open lower

US equities have opened lower with the main benchmarks showing much the same percentage fall as the Footsie here in the UK.

The FTSE 100 was down 86 points (1.2%) at 7,249 while in the US, the Dow Jones was down 306 points (1.2%) at 25,470 and the S&P 500 was off 32 points (1.1%) at 2,824.

The US was reacting to simmering trade tensions between the USA and China while in Britain there was the added ingredient of political drama, with the country going to the polls today to vote in the European elections while the country's government goes to the dogs, or so it seems, as the prime minister prepares for another go at getting her preferred Brexit deal passed by parliament.

"Clearly the political risk is escalating and while we didn't get the rumoured resignation last night, it feels different this time to the countless calls for May to step down over the last couple of years," suggested John Goldie at Argentex.

"Sterling has dropped to levels not seen since towards the start of the year but with a slight pop higher on the rumours yesterday it remains to be seen whether a change in leadership will be another layer of negativity for the pound or not. Whether the market feels that with May going there will be a greater chance of No Deal, or perhaps a greater chance of 'No Brexit At All', will clearly dictate the direction of travel from here," he added,

It's a rare day when there is no good news at all and today is not one of those rare days. As is often the case, it is the small caps that are providing the highlights.

Dual-listed Aura Energy Limited (LON:AURA) provided the brightest glow, climbing 40% to 0.7p, after it revealed it has produced its first samples of yellow-cake product at the Tiris uranium project.

Investors tucked into the shares of BigDish PLC (LON:DISH), the software development firm that has developed an app that helps restaurants lure in customers.

READ BigDish continues restaurants platform roll-out to more UK locations including into London commuter towns The company announced that Swindon is now live on the BigDish platform, with Taunton expected to go live before the end of the month.

1.15pm: Losses pared

Everywhere you look - except for India, apparently - stock markets are on the run today.

On the plus side, the FTSE 100 has trimmed its losses in the lunchtime session and is now down "just" 85 points at 7,249.

"US equity futures and European bourses are again under pressure, following Asian stocks lower, as Sino-US trade tensions show little sign of easing. The street is now officially worried that what started as a 'tiff over tariffs' is turning into a full-blown trade war," wrote Dean Popplewell of Oanda.

There has been some news flow to provide much-needed cheer, including from one-time glamour stock Serco Group PLC (LON:SRP), the controversial outsourcing company.

Serco's shares hardened 9.3% to 132.4p after the company announced the acquisition of a provider of ship and submarine design and engineering services to US Navy for US\$225mln.

Elsewhere in the defence sector, QinetiQ Group PLC (LON:QQ.) shot up 5.4% to 312.8p after it eked out a rise in profit before tax to £111.5m in the year to the end of March from £109.0m in the year before.

\$QQ. QinetiQ shoots higher as results impress <https://t.co/Ygq7YmFjD8> via @proactive\_UK @QinetiQ #QQ. #brighterir #AndrewScottTV #CapitalNetwork1

— Proactive Investors (@proactive\_UK) May 23, 2019 11.45am: Footsie a sea of red  
The Footsie notched up a triple-digit fall in mid-morning trading as investors looked in vain for havens.

The FTSE 100 slumped to 7,231 before rallying a little to 7,237, down 97 points.

"What was already a bad session turned disastrous following another round of dire PMIs [purchasing manager indices] from the Eurozone, the markets caught in a perfect storm of UK political turmoil, US-China trade warmongering and European economic softness," said Connor Campbell at Spreadex.

The Eurozone PMI rose to 51.6 in May from 51.5 the month before; a reading above 50 indicates expansion.

The manufacturing PMI fell to 47.7 from April's 48.1 while the services PMI declined to 52.5 from 53.0.

On the foreign exchange markets, sterling was down a quarter of a cent against the US dollar at US\$1.2636. A weak pound is usually a boon for blue-chip stocks but today the boost has been more than offset by nervousness over what could be the last embers of the Theresa May sojourn in Downing Street and the escalating trade/technology war between the US and China.

On a day when investors are looking for somewhere safe to park their money, United Utilities Group PLC (LON:UU.), from the "dull but safe" utility sector, picked a good day to release its results.

Unfortunately, the results were not up to much and the shares fell 2.2%.

READ United Utilities turns up tap on investment and dividends 10.00am: Handful of defensive stocks defy the weaker trend

Investors are finding plenty of things to worry about on Thursday as UK voters go to the polls.

London's index of leading shares was down 80 points (1.1%) at 7,255, with the size of the fall exacerbated by the likes of Morrisons, IMPs, Bunzl and DCC trading ex-dividend today.

"The markets are not a pretty sight on Thursday with stocks flashing red across the UK, Europe and parts of Asia. Investors are spooked by how relations between the US and China seem to be deteriorating, spurred by the US putting Huawei Technologies on a trade blacklist," said AJ Bell's Russ Mould.

ING Economics reckons China's response to the US tech war could be aggressive.

"Japan and Europe seem to be standing with the US to prevent the rise of Chinese technology but China could retaliate in ways that could prove very damaging," wrote Iris Pang, the firm's economist covering Greater China.

"It's clear that China will attempt to minimise its reliance on foreign countries to provide critical hardware and software. Facing severe headwinds from the US, China will aim to develop as many technologies as possible domestically and with more resources being ploughed into the sector, it's possible that China's technology will become more advanced than that of the US and its allies in the future, especially in 5G and the military," Pang warned.

Pang listed a number of responses China could make in retaliation, including an export ban on rare earths to the US, a reduction in its holdings of US Treasury bills and additional tax cuts for Chinese technology companies.

Meanwhile, in Britain, some commentators are saying the prime minister Theresa May's remaining time in office could number days rather than weeks.

Proofreading Andrea Leadsom #realtime\_notes pic.twitter.com/CB3y2MocVw

— Asbury & Asbury (@asburyandasbury) May 22, 2019

Yesterday, Andrea Leadsom, who back in 2013 said that leaving the EU would "be a disaster for Britain", resigned as leader of the House of Commons as she could not back the prime minister's Brexit deal.

Just five Fointsie stocks defy the trend and head higher, and four of those - Astra, Hikma, Glaxo and NMC - are in the traditionally defensive sectors of drugs/healthcare, while the other, Severn Trent, is in the equally defensive utilities sector.

8.45am: Weak start for Fointsie

The FTSE 100 shed 44 points at 7,289.77 in early trading amid continued domestic and global political uncertainty.

Here in the UK, the Tories have begun re-enacting Lord of the Flies, with the ruling party looking to change its own constitution to oust prime minister Theresa May.

Meanwhile, relations between China and the US were under scrutiny after Steven Mnuchin, the US Treasury Secretary, said presidents Trump and Xi probably won't talk until the G20 meeting of world leaders in Japan starting June 28.

"I'm still hopeful we can get back to the table. The two presidents will likely see each other at the end of June," Mnuchin was quoted by Reuters as saying.

If traders remained sceptical that a trade deal can be inked, they certainly bought into the defensive qualities of the drugs stocks with AstraZeneca (LON:AZN) up 1.6%, followed by GlaxoSmithKline (LON:GSK) and Hikma (LON:HIK).

Supermarket group Morrisons (LON:MRW) fell 4% after it began trading with entitlement to its latest dividend.

Dropping down to the FTSE 250, Royal Mail (LON:RMG), off 4.5%, was on a post-results downer. The market, meanwhile, applauded Serco's (LON:SRP) £178m deal to acquire Alion's Naval Systems Business Unit. The shares rose 8% in spite of a big share placing.

Proactive news headlines:

Metal Tiger PLC (LON:MTR) said drilling will start early next month on Kalahari Metals' Ngami Copper Project following environmental sign-off from the authorities in Botswana. This first-phase, 2,100-metre programme will test what's called fold-hinge geology over three areas.

BigDish PLC (LON:DISH) has continued with its expanded growth strategy to roll out its yield management platform for restaurants to more UK locations including into London commuter towns.

One of America's top aerospace museums is to use VR Education Holdings Plc's (LON:VRE) Apollo 11 virtual reality experience in a "major new attraction" to celebrate the 50th anniversary of the moon landing.

Sound Energy PLC (LON:SOU) has appointed Simon Davies as the Morocco-focussed gas firm's new independent non-executive chairman. Davies joins the company with immediate effect, replacing Richard Liddell who intends to spend more time on his other business interests. Liddell, meanwhile, remains with Sound as its independent non-executive director.

S & U PLC (LON:SUS), the car finance and bridging loan specialist, has been encouraged by improving trends in its business this year.

88 Energy Ltd (LON:88E) has told investors that a final decision is expected next month for the anticipated farm-out of

interests in the conventional portion of Project Icewine in Alaska. In a statement, the company said that the process is continuing with the preferred bidder and third party due diligence work is now largely complete.

StatPro Group PLC (LON:SOG) is targeting improved earnings (EBITDA) margins going forward as it delivered an in line update ahead of its AGM on Thursday.

Shefa Yamim (ATM) Ltd (LON:SEFA) is targeting expanded exploration at its Kishon Mid-Reach project in Northern Israel across 2019 and 2020. In an update ahead of its AGM on Thursday, the first for current chairman Michael Rosenberg, the precious stone miner said it expected to continue planning and regulatory procedures to begin mining at the Kishon Mid-Reach Zone 1 area by 2020, and thus become revenue generating.

CentralNic Group PLC (LON:CNIC) is to hold a series of fixed income investor meetings from the start of next week to try and secure funds for its acquisition of Australasian domain name and hosting reseller TPP Wholesale.

Alliance Pharma PLC (LON:APH) gave a confident assessment of prospects in an AGM statement and, separately, said it hoped to resolve objections raised by the watchdog over prescription drug pricing. The AIM-listed firm was one of a number of companies cited in a document called a Statement of Objections issued by the Competition & Markets Authority (CMA). The mention related to the pricing of an anti-nausea treatment called prochlorperazine.

Ormonde Mining plc (LON:ORM) has told investors that the new process plant at the Barruecopardo mine is now 'effectively complete' and is operating well. The company, in a statement, said that the Spanish tungsten mine is now achieving throughput rates of up to 190 tonnes per hour which is sufficient to meet the steady state processing target of 1.1mln tonnes per year. Big Pic in December.

Rockfire Resources PLC (LON:ROCK) has exercised its option to acquire the Copper Dome project in Queensland, Australia. The company has been carrying out exploration work at the deposit and had until the close of play today (Thursday) to decide whether it wanted to acquire it.

Taptica International Ltd (LON:TAP), a global leader in advertising technologies for brand advertising and performance-based mobile marketing, has appointed Christopher Stibbs as an independent non-executive director with effect from the Annual General Meeting on 13 June 2019. The group noted that Stibbs is currently chief executive officer of the Economist Group, a position he has held since July 2013.

Futura Medical PLC (LON:FUM), the pharmaceutical company developing a portfolio of innovative products for sexual health and pain relief, has announced the appointment of Liberum Capital as its nominated adviser and sole broker with immediate effect.

Polarean Imaging PLC (LON:POLX), the medical-imaging technology company with a proprietary drug-device combination product for the magnetic resonance imaging (MRI) market, has said it will be hosting a Capital Markets Day for all investors on Wednesday 12 June 2019. The event will take place at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS from 9.30am.

Collagen Solutions PLC (LON:COS), the developer and manufacturer of biomaterials and regenerative medicines for the enhancement and extension of human life, announced it will be presenting at the ShareSoc Growth Company Seminar in Manchester on Tuesday, 4 June 2019. The event will take place at the DoubleTree by Hilton Hotel, One Piccadilly Place, 1 Auburn Street, Manchester, M1 3DG.

6.45am: FTSE 100 set for back foot start

The FTSE 100 is expected to start Thursday's session on the back foot. Many of the headlines are familiar and the macro uncertainty continues.

In London, the main UK benchmark is being called around 40 points lower with IG Markets making the price 7,301 to 7,304 with more than an hour to go until the open.

Internationally, market attention continues to look anxiously at Donald Trump's trade dispute with China as the US treasury secretary conceded that trade relations have moved backwards and the president is due to meet the Chinese premier at the end of next month - meaning there's likely a few more weeks of uncertainty, at least.

At the same time traders in the US continue to see unchanged interest rates, though the most recent meeting minutes released last night revealed that Federal Reserve bankers are pleased with America's economic growth and employment data.

Wall Street stock indices all ended Wednesday on the back foot. The Dow Jones dipped 100 points or 0.39% to finish the session at 25,776/ The S&P 500 marked a 0.28% decline for the day, closing at 2,856, whilst the Nasdaq lowered by 0.45% to 7,750.

In Asia, Japan's Nikkei was down 166 points or 0.78% whereas Hong Kong's Hang Seng dropped 432 points or 1.56% to 27,274. The Shanghai Composite, meanwhile, shed 0.9% to trade at 2,864.

Closer to home the story was predictably familiar amid speculation that Theresa May won't get support for her version of Brexit and she is facing the exit from Number 10, though it is thought that the imminent European elections might provide a straw to break the proverbial camel's back.

David Madden, analyst at CMC Markets, in a note this morning said: "sterling was still suffering from the backlash that Theresa May received from her proposed withdrawal agreement.

"There was speculation about Mrs May being forced to resign, but the case for her to step down might come after the European election results, where the Tories are tipped to have a dreadful performance.

"The Brexit Party is on track to top the poll, and that might ramp up chatter about a no-deal Brexit, but then again, it might fall on Westminster's deaf ears."

Significant announcements expected on Thursday:

**Trading updates:** Intertek PLC (LON:ITRK), Coats Group PLC (LON:COA), Essentra PLC (LON:ESNT), Sabre Insurance Group PLC (LON:SBRE), Regional REIT Limited (LON:RGL), Tungsten Corp. (LON:TUNG)

**Finals:** United Utilities PLC (LON:UU.), TalkTalk Group PLC (LON:TALK), Tate & Lyle PLC (LON:TATE), Mothercare PLC (LON:MTC), Dairy Crest Group PLC (LON:DCG), QinetiQ PLC (LON:QQ.), Mediclinic International Plc (LON:MDC), Helical PLC (LON:HLCL), Paypoint PLC (LON:PAY), New River REIT PLC (LON:NRR)

**Interims:** AJ Bell PLC (LON:AJB), Mitchells & Butlers PLC (LON:MAB), Hollywood Bowl PLC (LON:BOWL)

**AGMs:** Alliance Pharma PLC (LON:APH), StatPro Group PLC (LON:SOG), Shefa Yamin (ATM) Ltd. (LON:SEFA)

**Ex-dividends to clip 3.02 points off FTSE 100 index:** Bunzl Plc (LON:BNZL), Carnival PLC (LON:CCL), DCC PLC (LON:DCC), Imperial Brands PLC (LON:IMB), Wm Morrison Supermarkets PLC (LON:MRW)

Economic data: German IFO business climate index; US weekly jobless claims, US new home sales

Around the markets:

- Pound: US\$1.2641, down 0.19%
- Gold: US\$1,274 per ounce, up 0.03%
- Brent crude: US\$70.34 per barrel, down 2.6%
- Bitcoin: US\$7,612, down 4.26%

City Headlines:

- Topshop tycoon Sir Philip Green to close 23 stores - BBC News
- Amazon shareholders reject ban on selling face recognition software to police - The Telegraph
- US judge rules Qualcomm 'strangled' competition - Financial Times
- Panasonic 'suspends transactions' with Huawei after US ban - BBC News
- UK chip designer Arm hangs up on under-fire Huawei - Sky News
- Energy bills push inflation to 2019 high - BBC News

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