06:00 29 Jul 2019

Week ahead preview: Lloyds, Barclays, RBS, BT Group, BoE and US Fed

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.

action@proactiveinvestors.com

The UK's biggest banks will be under the microscope in the coming week as second-quarter earnings season gets into full swing.

Lloyds Banking Group PLC (LON:LLOY) will kick things off on Wednesday, followed by Barclays PLC (LON:BARC) on Thursday and Royal Bank of Scotland Group PLC (LON:RBS) on Friday.

In the first quarter, Lloyds' profits were dented by an extra provision for payment protection insurance (PPI) claims and a competitive mortgage market.

Hargreaves Lansdown said it expects both trends to continue in the second quarter, particularly as the August 29 deadline for PPI claims approaches, but thinks the lender's focus on cost reduction should help offset the headwinds.

The results are also likely to mention the £140mln charge Lloyds agreed to pay Standard Life Aberdeen PLC (LON:SL.) to settle their dispute over a £100bn fund management contract.

The bank scrapped the contract when Standard and Aberdeen merged but a tribunal in March ruled there were no grounds for that action.

SLA will continue to manage one-third of the total assets under management, around £35bn, until at least April 2022.

The remaining assets will be transferred to BlackRock and Schroders, with whom it has set up a wealth management joint venture.

"Those looking for something a bit more upbeat should keep an eye on any comments relating to the wealth management joint venture with Schroders - due to launch in the second quarter," said Nicholas Hyett, equity analyst at Hargreaves.

"It's an ambitious venture into retirement and wealth planning with bags of long-term potential, although profits aren't yet the name of the game."

UBS expects Lloyds to post adjusted pre-tax profit of £1.9bn, including remediation costs of £168mln, for the second quarter, compared to £2.2bn last year.

Investment bank recovery key for Barclays
For Barclays, the key focus of its interims will be on the performance of its under-pressure investment bank.

The bank has fended off activist investor Edward Bramson, who wanted a seat on the board to push forward his plan to scale back the investment bank.

Barclays believes it can turn around the division and shareholders will want to see the group delivering on that front.

"Chief executive Jes Staley and the board are committed to it so this operation must perform," said AJ Bell investment director, Russ Mould.

He added: "In the first half of 2018, the investment and corporate bank made a pre-tax profit of some £2bn, but as we can see the quarterly trend can be volatile, just like the markets."

UBS has forecast pre-tax profit of £1.3bn for the second quarter, down from last year's £1.9bn.

RBS investors await new CEO announcement

When RBS reports its interims, investors will be looking out for a potential announcement on the next chief executive to replace Ross McEwan.

McEwan is leaving to become the boss of the National Australia Bank but he has a 12-month notice period extending to April 2020 and will remain in the role to ensure an orderly handover to his successor.

He has led RBS through a restructuring that has resulted in a return to profit and the restart of dividend payments.

However, the bank remains 62%-owned by government since its £45.5bn bailout from the government during the financial crisis in 2008.

Like the rest of the big banks, its shares have struggled to make much headway amid concerns about Brexit uncertainty, tough competition in the mortgage market, low interest rates, a slowing housing market and legacy issues.

So, whoever takes over the reins from McEwan will be under pressure to improve the share price.

UBS expects the bank to report adjusted pre-tax profit of £1.3bn for the second quarter, down 17% year-on-year.

"We expect the firm to announce interim dividend per share totalling 7.5p, 2.5p ordinary and 5p special, leaving CET1 ratio at 16.6%," it said.

BT posts quarterly update as it focuses on fibre roll-out

BT Group PLC (LON:BT.A) will ring up a first-quarter update on Friday, with the telecoms giant's shares down 21% since the start of the year amid a mix of news.

Touching upon one of the key investor issues, chairman Jan du Plessis said at the group's annual general meeting this month that the company will consider reducing the dividend in "a year or two in the future" in order to ease the funding of its roll-out of 'fibre to the premises' broadband.

Good news for BT in recent months has included a £100mln towers sale and leaseback deal with Cellnex, a disposal of its London headquarters for £209mln and reports that talks are in progress over a potential sale of its Spanish operations.

At its annual results announcement in May, new chief executive Philip Jansen, who joined at the start of the year, increased BT's target for investing in laying superfast broadband from 3mln to 4mln homes and businesses by March 2021, with an "ambition" to reach at least 15mln premises by the mid-2020s.

The consensus forecast for the first quarter is for a 2.2% drop in revenue to €5.6bn and underlying earnings (EBITDA) to fall 4% to €1.9bn.

"We would expect BT Group to re-iterate its full year guidance of adjusted revenue -2% (consensus -2.0% at £22,980mln), adjusted EBITDA
of £7.9-8.0bn (consensus -2.0% to £7,961mln) and free cash flow to equity of £1.9-2.1bn (consensus £1,983mln)," UBS said.

Apart from maybe an official confirmation that a dividend cut is possible in a year or two, most analysts do not foresee a dividend cut any time soon.

Not necessarily Deutsche Bank, which recently downgraded the shares of what they said was "one of the least attractive" stocks in the sector, seeing the broadband rollout as requiring rising capex and hitting the earnings recovery, with a dividend cut anticipated to 10.3p "from FY21".

Baby formula key for Reckitt Benckiser
Reckitt Benckiser PLC's (LON:RB.) recent US$1.4bn settlement over allegations that it tried to illegally boost sales of its blockbuster opioid addiction treatment certainly made headlines, but it is unlikely to dominate Tuesday's half-year results.

Analysts reckon the looming departure of longstanding chief executive Rakesh Kapoor, who is stepping aside in September, is a more pressing issue.

"A smooth set of half year results would be the ideal welcome gift for new boss, Laxman Narasimhan," said Hargreaves Landown's Nicholes Hyett.

Infant nutrition - which makes up almost a quarter of group sales - will be closely eyed, and investors will be hopeful that Asian sales have started to improve following manufacturing issues and lower birth rates in China.

"Reckitt needs to show it's able to secure its piece of the US$25bn Chinese baby formula market," Hyett added.

Elsewhere, there has been speculation that Reckitt might look to spin off the rest of the business, although we're unlikely to hear anything about that until the new boss has his feet firmly under the table.

Weather might dampen sales at Next
Don't expect too much detail when Next PLC (LON:NXT) updates the markets on Wednesday. It's only a trading statement, so in terms of numbers, all we'll get is sales numbers.

As the retailer pivots away from its traditional bricks-and-mortar offering, investors will be looking at online growth, which at 11.8% was strong in the prior quarter.

"We're expecting in store sales to have declined again, but will be hoping they aren't worse than expected," said Hargreaves Lansdown in a note to clients.

"Low single digit declines wouldn't be a cause for concern, but a higher number would raise eyebrows."

Even with the predicted decline, Next is likely to have opened more space. That's because more than half of online orders are collected in store.

The weather could knock sales in the most recent quarter, though. With some unusually warm weather earlier in the year, shoppers might have pulled forward their summer wardrobe update. Plus, until recently, the summer had been reticent to rear its head, so that too might have dented demand.

In May the company was predicting full-year profits would drop to £715mln so any update on that figure will be of interest.

Can Greggs keep delivering the upgrades?
Greggs PLC (LON:GRG) has been one of the best-performing stocks in London this year, with the share price almost doubling after a string of profit upgrades.

City watchers will be looking for that outperformance to have continued when the pasty and doughnut seller reports its half-year results on Tuesday.

The last time we heard from Greggs was in May, when bosses reported a scarcely believable 11.1% jump in like-for-like sales so far this year.

That was the fourth upgrade in five months and sent shares to all-time highs. Since then the shares have headed even higher.

What's really impressive is that Greggs has grown sales when its retail and restaurant peers have, almost without exception, found the going tough.

Greggs has managed to tap into market trends, growing its breakfast and late-afternoon offerings, and even bringing out a vegan sausage which has proved a masterstroke.

Softer oil and gas prices could hit Shell
A half-year update from Royal Dutch Shell PLC (LON:RDSB) on Thursday comes after a recent rebound in crude oil prices amid tensions in the Persian Gulf.

But oil and natural gas prices have been slightly lower during the first half of this year compared to last year, which act as a dampener on the group's revenues even though production is expected to have increased.

Shell's downstream operations, including refining, have found it tougher lately and investors will be keen to hear of some improvements in these markets, analysts at the Share Centre said.

"Overall performance in recent years has been good with cost cuts and divestments helping to dramatically improve the cash flows. The previously announced cash and capital returns should be reiterated," they added.

Forward order book spied at Taylor Wimpey
Housebuilder Taylor Wimpey PLC (LON:TW.), whose second-quarter results are due on Wednesday, has so far managed to defy any talk of a slowdown in the housing market.

Trading was strong in 2018 and that has continued into 2019. Results earlier this year showed a rise in revenue and completions, which helped to boost profits by 18%.

"With strong cash balances, the dividends have been good and are expected to remain so," said The Share Centre in its preview.

"However, some analysts are still concerned that increased levels of political and economic uncertainty in the future could result in a slower rate of growth. So investors will be looking at the forward order book to see if there are any signs of that."

BoE policy hints eyed
When markets are finished digesting corporate earnings, they will be turning their attention to the latest policy decisions from the Bank of England and the US Federal Reserve.

Given the uncertainty surrounding Brexit, BoE is expected to leave interest rates at 0.75% and its asset purchase programme at £435bn.

But governor Mark Carney may provide hints on the future direction of policy when he speaks at a press conference after the Bank's policy announcement and quarterly inflation report have been published on Thursday.

The inflation report will set out the economic growth and inflation projections that Bank uses to make rate decisions. However, it's hard for the Bank to determine where the economy is headed given that a no-deal Brexit looks more likely under new prime minister Boris Johnson.

Carney has previously said that he would vote for a rate cut in the event the UK leaves the European Union without a deal but the BoE's chief economist, Andy Haldane, has said he would resist lowering borrowing costs until there was a sharp downturn.

The minutes of the June meeting were seen as more dovish but the Bank reiterated that further rate rises were likely to be required "at a gradual pace and to a limited extent".

Fed looks set to cut rates
A US rate cut looks more imminent with many economists expecting the Federal Reserve to make that move at its meeting on Wednesday.

A 25 basis point cut to interest rates is expected and that would please President Donald Trump, who wants looser policy to weaken the dollar to boost exports and economic growth.

ING Economics said weaker global growth and heightened trade tensions have started to weigh on US activity.

"President Trump, a vocal critic of the Federal Reserve, has demanded aggressive policy stimulus to support the US economy, but with the US consumer sector continuing to perform strongly, thanks to low unemployment and the combination of rising wages and asset prices, the Fed has been reluctant," it said.

"That situation is now changing. After having raised interest rates in December, the language of officials has shifted significantly with Jerome Powell stating that 'uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the US economic outlook'."

Significant announcements expected:

Monday July 29:
Interims: Hammerson PLC (LONLHMSO, Keller PLC (LON:KLR), Hiscox PLC (LON:HSX)

Trading updates: Cranswick plc (LON:CWK), Gama Aviation PLC (LON:GMAA)

AGMs: Active Energy PLC (LON:AEG), Remote Monitor Systems PLC (LON:RMS)

Economic data: US Dallas fed manufacturing index, UK mortgage approvals and consumer credit

Tuesday July 30:
Trading updates: Reckitt Benckiser PLC (LON:RB.)

Finals: Games Workshop PLC (LON:GAW), NWF PLC (LON:NWF)

Interims: Centrica Plc (LON:CNA), Greggs PLC (LON:GRG), Provident Financial Group PLV (LON:PFG), Aggreko PLC (LON:AGGK), Elementis PLC (LON:ELM), Jupiter Fund Management PLC (LON:JUP), Low & Bonar PLC (LON:LWB), Spectris PLC (LON:SXS), Hutchison China MediTech PLC (LON:HCM)

AGMs: Rose Petroleum PLC (LON:ROSE)

Economic data: US personal income and personal spending, US PCE price index, US consumer confidence

Wednesday July 31:
US Federal Reserve rate decision

Trading updates: Next PLC (LON:NXT), 3i Group PLC (LON:III), Mitchells & Butlers PLC (LON:MAB)

Interims: Lloyds Banking Group PLC (LON:LLOY), BAE Systems PLC (LON:BA.), Taylor Wimpey PLC (LON:TW.), Direct Line Insurance Group PLC (LON:DLG), Smith & Nephew PLC (LON:SN.), St James's Place PLC (LON:STJ), Rentokil Initial PLC (LON:RTO), Smurfit Kappa Group PLC (LON:SKG), Serco PLC (LON:SRP), Dignity PLC (LON:DTY), Indivior PLC (LON:INDV), Man Group PLC (LON:ENG), 4Imprint PLC (LON:FOUR), Ibstock Plc (LON:IBST), International Personal Finance PLC (LON:IPF), Intu Properties PLC (LON:INTU), Restore Plc (LON:RST), StatPro Group PLC (LON:SOG)

Finals: ANGLE PLC (LON:AGL), DWF Group PLC (LON:DWF), Hargreaves Services PLC (LON:SHP)

Economic data: Eurozone GDP, US ADP employment change

Thursday August 1:
Bank of England rate decision and inflation report

Interims: Royal Dutch Shell PLC (Q2) (LON:RDSA), Barclays PLC (LON:BARC), Standard Chartered PLC (LON:STAN), Rio Tinto PLC (LON:RIO), RSA Insurance PLC (LON:RSA), British American Tobacco PLC (LON:BATS), London Stock Exchange Group PLC (LON:LSE), Schroders PLC (LON:SDR), Intertek PLC (LON:ITRK), Mondi PLC (LON:MNDI), Spirent PLC (LON:SPT), Cobham PLC (LON:COB), Coats PLC (LON:COA), ConvaTec PLC (LON:CTEC), Merlin Entertainments PLC (LON:MERL), RPS Group PLC (LON:RPS), T Clarke PLC (LON:CTO), UK Commercial Property trust PLC (LON:UKCM), FBD Holdings PLC (LON:FBD)

Finals: Renishaw PLC (LON:RSW)

FTSE 100 ex-dividends: none

Economic data: US weekly jobless, US ISM manufacturing

Friday August 2:
Interims: BT Group PLC (LON:BT.A), Royal Bank of Scotland Group PLC (LON:RBS), International Consolidated Airlines Group PLC (LON:IAG), Essentra PLC (LON:ESNT), Millennium & Copthorne PLC (LON:MLC), Airea PLC (LON:AIRA)

Economic data: US non-farm payrolls, US factory orders and durable goods orders, University of Michigan sentiment index is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.