17:24 30 Jul 2019

FTSE 100 closes lower but BP top gainer after Q2 results beat expectations

- FTSE 100 ends nearly 40 points lower
- Sterling hits lowest point since March 2017
- US stocks also in red

Share Information

MarketTopic Synopsis:

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

action@proactiveinvestors.com

5.20pm: Weak performance
The FTSE 100 index closed in the red on Tuesday, reversing Monday's gains as US stocks also lagged, but oil firms gained on the back of BP PLC's (LON:BP.) second quarter results, which beat expectations.

The Footsie closed 39.84 points lower on the day at 7,646, while the midcap FTSE 250 index plunged almost 112 points to close at 19,774.

On Wall Street, the Dow Jones Industrial Average was down around 69 points, at the time of writing, while the S&P 500 was off over 11 points.

Elsewhere, Germany's DAX 30 shed over 270 points at 12,147, while the French CAC 40 lost around 90 points.

Michael Hewson, chief markets analyst at CMC Markets UK, noted that in Europe there are signs that the economic outlook is continuing to darken with further evidence that the region is sliding towards a slowdown, and a deflationary funk with a host of weak German inflation numbers, while the French economy showed a weaker than expected expansion in Q2 of 0.2%.

"The DAX has come under the most pressure, sliding to a one month low after weak disappointing updates from Bayer and Lufthansa, as well as concerns that one of Germany's biggest export markets is about to become much more expensive, as the euro continues to climb against the pound," Hewson said.

On currency markets, sterling continued to lose ground, down 0.46% against the US dollar, as hard Brexit worries held sway.

Among equities in London, BP gushed up to the top of the blue chip gainers, adding 3.07% to 543.20p as higher production in the second quarter offset lower oil prices.

BP's oil and gas production averaged 3.8mln barrels a day, which was around 4% more than a year ago as four upstream projects were switched on. Underlying profit was US$2.8bn, little changed from a year ago, while US$8.2bn of cash was generated in the second quarter and US$14.2bn for the half.

Energy giant peer Royal Dutch Shell (LON:RDSB) added 0.34% to 2,618p.

2.45pm: UK stocks remain lower
Despite another weak session for sterling, doing its best Sunderland FC impersonation on foreign exchange markets, UK stocks remain modestly lower on balance.

The FTSE 100 was down 11 points (0.1%) at 7,676, having risen as high as 7,727 in the morning session and as low as 7,668 in the afternoon.

Sterling is down by more than half a cent against the US dollar at US$1.2161 while travellers are grumbling that they are getting just 85 euro cents to the pound from the admittedly not very generous foreign exchange desks at UK airports.

#Pound worth just 85 euro cents at #UK airports as #sterling sinkshttps://t.co/lyrGP9Jrgt pic.twitter.com/UAP81ZBaeY

— A Travel Companion (@aTravelCompanio) July 30, 2019
The run - well, more of a sprint, really - on the pound has been sparked by increasing fears of a "no deal" Brexit.

Markets now seem to think there's a 40% chance of a no-deal Brexit, up from just 20% a month ago.

That's the steer from the OIS market, which is pricing-in only a 5% chance of Bank Rate being lower than now in Sept (the MPC's last meeting pre-Brexit) but a 44% chance in Nov: pic.twitter.com/kd59T8IvwY

— Samuel Tombs (@samueltombs) July 30, 2019
"Brexit taking its toll on the pound is not a new story but Johnson's new team has been on a PR offensive in recent days and the currency is once again taking a beating. Johnson is adamant to avoid the mistakes of his predecessor and have his no-deal threats be taken seriously by Brussels as he seeks to renegotiate the backstop and deliver Brexit on 31 October," opined Craig Erlam at Oanda.

"Traders are clearly sitting up and taking notice, with the pound slipping again on Tuesday, dropping to its lowest since March 2017 and looking susceptible to further pain. Johnson's camp won't be concerned by this, quite the opposite, they'll be happy that the market is taking them at their word and hoping Brussels does to. Still, it could be a long few months," he suggested.

2.40pm: US stocks open in the red
US stocks opened in the red ahead of the interest rate decision to be announced tomorrow by the Federal Reserve.

The Dow Jones industrial average was 108 points (0.4%) lighter at 27,113 and the S&P 500 was 15 points (0.5%) lower at 3,006.

"US markets opened mixed as the earning season remains in full swing and a number of solid profit reports lifted the Dow Jones Industrial Average; however, the tech orientated Nasdaq was in decline ahead of Apple's results which are due after the market closes," reported Fiona Cincotta at City Index.

"The pound was significantly weaker, although it managed to bounce off the day's lows as new PM Boris Johnson repeated his hard-line message on Brexit. Sterling traded down 0.37% at $1.2172 against the dollar and was heading for parity with the euro following a message to European negotiators from the new Foreign Secretary yesterday. It then continued its decline in reaction to the PM's comments to his Irish counterpart Leo Vardarkar that Britain will exit Europe at the end of October 'no matter what'," Cincotta added.

In London, the FTSE 100 seemed to be taking its lead from US markets; it was down 28 points (0.4%) at 7,659.

Away from the big caps, BBA Aviation PLC (LON:BBA) gained altitude after dumping Ontic, a leading provider of parts for legacy aerospace platforms, overboard.

Shares in the global aviation and after-market services specialist were up 5.2% at 320p after it agreed the US$1.37bn sale to CVC Fund VII, paving the way for US$750-850mln to be returned to shareholders.

Emergency power provider Aggreko PLC (LON:AGK) climbed 6% to 823.2p after it said it was on track to deliver a "mid-teens" return on capital invested in 2020.

In places where access to the electrical grid isn't readily available @Aggreko_Intl offers its customers a brand-new line of EPA-certified Tier 4 final diesel OFA compressors powered by MTU's 617 bhp 6R 1500 diesel engine. https://t.co/vQn4Ictgam #powergeneration #energy pic.twitter.com/aIupgibDX5

— MTU (@MTU_PR) July 30, 2019 12.35pm: Leading shares little changed
London's index of leading shares continues to hover around last night's closing level ahead of tomorrow's interest rate decision by the US central bank.

The FTSE 100 was up 7 points (0.1%) at 7,693.

"Trade talks resume today in Shanghai but there isn't much optimism around the talks, perhaps a reflection of the belief that we've been here before and not got anyway. Of course, as time ticks by the sense of urgency will ramp up but for now, there is a feeling that these talks will drag on and little is likely to be achieved this week," said Craig Erlam at Oanda.

"The data today could be of more interest, with income, spending and inflation data due out of the US. It's not going to have any impact on tomorrow's decision but it could help shape what they do in the coming months, with a lack of inflation one of the key arguments for the central bank to keep cutting rates.

On the equities front, British Gas owner Centrica Plc (LON:CNA) was a major drag on the index, diving 15% to 77.36p after a grim trading update that included what many see as a long overdue dividend cut.

British Airways owner International Consolidated Airlines (LON:IAG) gave back 15.7p at 422.9p after some pundits suggested it could be the next big name to cut its dividend pay-out.

After yesterday's bid excitement online food ordering portal operator Just Eat PLC (LON:JE.) surrenders 9.8p of yesterday's gains at 770.2p.

Financials are out of favour with losses of more than 1% for banking giants Royal Bank of Scotland Group PLC (LON:RBS), Barclays PLC (LON:BARC) and Lloyds Banking Group PLC (LON:LLOY) while insurers RSA Insurance Group PLC (LON:RSA), Legal & General Group PLC (LON:LGEN) and Direct Line Insurance Group PLC (LON:DSG) also suffer falls of 1% or more.

11.20am: back to square one
Despite support for heavily-weighted index constituents such as BP and the miners, the Footsie has slunk into the red.

Sterling may be down by 0.42 of a cent at US$1.2175 but after yesterday's handsome gains, traders have evidently decided that the Footsie - down 3 points (0.0%) at 7,684 - has risen far enough for now.

Shares in oil titan BP PLC (LON:BP.) were up 3.5% at 545.3p after a second-quarter update, making them the best performing Footsie constituent.

"The group's cash flows are robust and the outlook for dividends is a lot brighter today than it has been for some time," said Steve Clayton, who manages the HL Select UK Income Shares fund, which, unsurprisingly, features BP in its portfolio.

The mid-cap FTSE 250 - less likely to do well when sterling suffers than its big-cap counterpart - was down 19 points (0.1%) at 19,868, with CYBG PLC (LON:CYBG) leading the retreat after its fiscal third-quarter trading update.

The shares were down 11% at 176.9p after the company behind the Yorkshire Bank and Virgin Money trimmed its margin forecasts for the year.

Speciality chemicals company, Elementis (my dear Watson) was a bright spot, hardening 4.7% to 139.9p after its half-year report.

Elementis PLC (LON:ELM) saw revenue and adjusted operating profit fall year-on-year on an organic basis but forecast that the second half of the year would seen an improved performance.

Provident Financial PLC (LON:PFG) is off the sick-bed after fending off the attentions of rival sub-prime lender Non-Standard Finance PLC (LON:NSF).

The shares were up 3.7% at 430.8p after the company reinstated an interim dividend.

On the macroeconomic front, the European Community's Economic Sentiment Indicator—ESI—for the UK eased to 94.3 in July, from 95.1 in June.

"The drop in ESI in July entirely reflects worsening confidence among manufacturers and retailers. The industrial component of the ESI has a ludicrously high 45% weight, even though the manufacturing sector accounts for only 10% of UK GDP," grumbled Samuel Tombs, the chief UK economist at Pantheon Macroeconomics.

"Confidence among services and construction firms picked up, and our re-weighted version of the business confidence indices—where the weights reflect sectors' shares of GDP—rose slightly, to a level consistent with year-over-year growth in GDP of about 1.3%," he added.

9.45am: Subdued start for London's blue-chip stocks
After yesterday's triple-digit advance, it's a case of "after the Lord Mayor's show" for the Footsie, which is modestly higher.

London's index of heavyweight shares was up just 13 points (0.2%) at 7,700, despite sterling once again doing its dying swan impersonation on the foreign exchange markets.

"A severely depressed and unloved British Pound, disagreements with Brussels and chronic uncertainty over Brexit are positioned to be key themes shrouding the UK economy this quarter. Intensifying fears of a no-deal Brexit under Johnson's leadership are already being reflected in sterling which is weakening against every single G10 currency today," reported Lukman Otunuga, a senior research analyst at FXTM.

Centrica Plc (LON:CNA) has left what Frank Spencer would have called "a whoopsy" on the Footsie's carpet, cutting its dividend and defenestrating its chief executive, Iain Conn.

The shares were off 11% at 80.94p, even though the dividend cut was widely expected and Conn's exit was not particularly surprising either.

.@centricaplc CEO Iain Conn says now is the time to let someone else lead the "smaller customer-facing company which I hope to have largely delivered on by the time I leave" https://t.co/YtUqh95pvn

— Utility Week (@UtilityWeek) July 30, 2019
The cold response to the British Gas owner's half-year report meant that Fresnillo PLC (LON:FRES) was denied the Footsie's wooden spoon after its own lacklustre half-year update.

READ Fresnillo posts sharp drop in sales and profits for first half of 2019
The shares were 5.9% weaker at 747.4p.

I don't know what the opposite of a win treble is - a "lose treble", presumably - but whatever it is, Anglo-Dutch health and hygiene goods giant Reckitt Benckiser PLC (LON:RB.) completed it with a 3.2% fall to 6,456p after it failed to scrub up sufficiently well in its half-year report.

The Clearasil maker's performance was a bit spotty in the first six months of the year resulting in it lowering sales guidance for the full year.

8.25am: Forex tailwinds lift London's blue-chips again
The value of the pound exerted a positive pull on the FTSE 100 as it rose 33 points to 7,719.11.

Currently trading just above US$1.21 and a new two-year low, sterling has been ravaged by the No Deal Brexit rhetoric of Boris Johnson and his new administration.

The upside for the blue-chip index is that many of its constituents are big overseas earners, which benefit from a weak domestic currency.

"The next stop is US$1.2040 - if that blows then we're into new territory sub-US$1.20 and it's anyone's guess where cable could land," said Neil Wilson, analyst at Markets.com.

"Remember the previous post-2016 low was before no-deal was on the table - it was all talk of a hard versus soft Brexit - no deal wasn't even being discussed."

Centrica (LON:CNA) shares tumbled 8% early on as the British Gas owner's boss Iain Conn exited after scalping the dividend.

On any other day Reckitt Benckiser (LON:RB.) might be the villain of the piece. Its share tumbled 5% after the Nurofen maker cut its earnings guidance.

Suggesting it is better to travel than arrive, Greggs (LON:GRG) investors booked a profit after a strong set of interim results, which were coupled with a 35p special dividend.

In the last year, the shares, down 3.3% Tuesday, have advanced 130% on the back of the phenomenal success of its vegan sausage roll.

6.30am: Higher start predicted
The FTSE 100 is expected to start higher on Tuesday as its dollar-earning constituents are aided by the pound sinking like a stone as Downing Street kept up its new hardline stance on Brexit.

London's blue chip index was being called 28 points higher at just over 7,727 on the IG spread-betting platform.

Sterling was plunging to its lowest in over two years, screeching down another 0.7% against the greenback to 1.2130, the lowest since Article 50 was triggered Article 50 in March 2017, and was down by the same degree versus the euro at 1.0888.

In a hardline stance that spooked the markets, Prime Minister Boris Johnson's spokesman ruled out any new Brexit talks until the European Union had publicly committed itself to scrapping the Irish backstop.

"The European Union has said up to now it's not willing to renegotiate that so we must assume there will be a no-deal Brexit on October 31," she said on Monday night.

"The prime minister will be happy to sit down with leaders when that position changes, but he's making it clear to everybody he speaks to that that needs to happen."

Analyst Ipek Ozkardeskaya at London Capital Group said the likelihood of a no-deal Brexit becoming increasingly plausible meant for many traders "it seems better to jump ship now, as things are about to get uglier as we approach the October 31st deadline".

The government was playing a game of chicken, reckoned Michael Hewson at CMC Markets.

"It is clear that the new UK government has taken the calculated decision to up the ante on the EU, at the expense of the exchange rate, in order to try and drive further concessions from a Europe that is already struggling with significant economic weakness, and whose exports into the UK will now become much more expensive," he said.

"There appears to be a calculation being made that rather than risk a no deal, that both parties will come to a solution which prevents a shock dislocation which could ripple out across Europe."

Overnight, Wall Street had a mixed time, with the Dow Jones up 0.1% but the S&P 500 down 0.2% and the Nasdaq falling 0.4% as traders look ahead to the Federal Reserve meeting later in the week.

Asia is on the front foot as the Bank of Japan kicked off this week's central banks activity by keeping rates unchanged.

In Tokyo the Nikkei is up 0.3%, in Hong Kong the Hang Seng is also up 0.3%, while Shanghai is besting the pair of them with a 0.6% rise.

Greggs on a roll?
Greggs PLC (LON:GRG) has been on a roll of late, having delivered a string of profit upgrades on the back to strong sales.

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 lifted its expectations for the 2019 fiscal year after a scarcely believable 11.1% jump in like-for-like sales in the first 19 weeks of the 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 bringing out a vegan sausage that has proved a masterstroke.

Reckitt's new CEO in the spotlight
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 its 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.

Provident Financial investors look for turnaround progress
Provident Financial PLC (LON:PFG) reports its interims on Tuesday in the wake of successfully fending off a £1.3bn

hostile takeover bid from rival subprime lender Non-Standard Finance PLC (LON:NSF).

NSF ditched its plan to buy Provident in June after failing to secure enough support from shareholders.

Provident advised shareholders against backing the deal, arguing that a review of NSF's historical financial disclosures had uncovered a series of concerns, including a poor capital position and statutory losses since the business was founded.

NSF had said these concerns were "completely unfounded" and insisted that it has a "robust capital position".

It argued that Provident's board has presided over multiple profit warnings, serious regulatory mismanagement and a lack of vision for the future of the business.

In a first-quarter trading statement published in May, Provident estimated that it had spent more than £20mln in trying to defend itself from the unsolicited offer.

Provident said all four of its divisions - Vanquis Bank, Moneybarn, Satsuma and home credit - performed as expected in the opening three months of 2019, delivering "strong new business growth" in the period.

Having won the battle against the NSF bid, investors will be looking to see that Provident's recovery is on track when the group reports its first-half results

Major announcements due:
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

Proactive news headlines
Coaches operator National Express Group PLC (LON:NEX) is to install Seeing Machines Limited's (LON:SEE) Guardian driver monitoring technology into vehicles across its UK fleet.

CentralNic Group PLC (LON:CNIC) has promoted its chief operating officer, Alex Siffrin, to the board. The 42-year-old joined the internet domain names specialist last year following the reverse takeover of his company, KeyDrive.

Virtual reality specialist Immotion Group PLC (LON:IMM) has cautioned a shift in business strategy will affect its numbers in the current year. In future, the focus will be on revenue sharing partnerships to roll-out its virtual reality pods into high footfall locations rather than direct sales.

As investors and management await exploration results in Guyana, Eco Atlantic Oil & Gas Ltd (LON:ECO)(TSX:EOG) today released its annual report which highlights a "strong balance sheet" that allows it to begin its drilling campaign.

Thor Mining PLC (LON:THR) is continuing to engage in talks regarding funding for its Molhil tungsten project in Australia.

In a statement after Monday's close Aminex PLC (LON:AEX) told investors that it had agreed a new extension to the longstop date for its farm-out deal for the Ruvuma asset onshore Tanzania, with a new date set at 31 October.

Xpediator PLC (LON:XPD) said demand for its freight management services remains strong but this year's profit will be materially below expectations.

Polymetal has exchanged US$10mln worth of convertible loan notes in Chaarat Gold Holdings (LON:CGH) for just over 14.6mln shares. The convertible was issued as part of the deal whereby Chaarat acquired the Kapan mine in Armenia.

Physiomics Plc (LON:PYC) in a short statement confirmed it has traded in line with analysts' expectations for the year to June 30.

Tower Resources PLC (LON:TRP) has extended its bridging loan facility with repayment now moving out to 31 August.

Brady PLC (LON:BRY) said it has appointed non-executive director Iain Greig as its interim chief technology officer with effect from August 12.

accesso Technology Group plc (LON: ACSO) has awarded its chief operating officer, John Guilfoy, more than £500,000 worth of share awards under its long-term incentive plan, which was approved by shareholders in May 2017.

MTI Wireless Edge Ltd's (LON:MWE) wholly owned subsidiary, Mottech Water Solution Ltd, has completed the purchase of 50% of Parkland Australia.

Business headlines

Financial Times

- Sterling remained under selling pressure in Asian trading hours on Tuesday on growing market fears that Britain is sailing towards a damaging no-deal exit from the EU in three months' time.
- Companies and governments are this year renewing efforts to investigate whether hydrogen could help decarbonise key sectors of the global economy, from industry and power to shipping and transport.
- Grant Thornton has told regulators it intends to quit as Sports Direct's auditor following concerns over the disclosure of a €674m tax bill.
- Capital One, the US bank, said on Monday that it had suffered a massive data breach, reporting that an outside hacker obtained the personal data of more than 100m customers and applicants for its credit cards
- InterContinental Hotels has become the first global hotel company to commit to cutting the use of miniature toiletries.

The Times

- Ministers have not formulated a basic policy on how to attract foreign investment after Brexit, the Commons international trade committee has warned.
- Investors in Neil Woodford's stricken Equity Income Fund have been warned that they are likely to be trapped for most of the year in a freeze on withdrawals, while the stockpicker's firm nets more than £11 million in fees.
- Brussels has narrowed down the shortlist of European candidates for managing director of the International Monetary Fund — and neither George Osborne nor Mark Carney has made the cut.
- Beyond Meat breezed past Wall Street's forecasts for its second-quarter results last night, but shares in the celebrity-backed "alternative meat" company fell sharply after it announced a new stock offering.

Telegraph

- A split in the government is at the heart of the pound's fall, with Michael Gove, who is in charge of no-deal planning, saying that the government was "working on the assumption" that Britain would leave without a deal but the Prime Minister later contradicted his minister, saying he "absolutely" did not agree no-deal was the most probable outcome.
- Citigroup is poised to slash "hundreds" of jobs in its global markets division.
- Boris Johnson will promise to give farmers a "better deal" after Brexit as he said they will be "selling ever more, not just here but around the world".

Guardian

- Boris Johnson has been accused by Nicola Sturgeon of intentionally pushing the UK towards a no-deal Brexit, despite his "bluff and bluster" about wanting an agreement with EU leaders.
- Local politicians have said there will be catastrophic job losses if Vauxhall carries out its threat of ending production at its Ellesmere Port factory should Brexit make the site unprofitable.
- Michael O'Leary has said he cannot rule out making some of Ryanair's 17,500 staff redundant if the Boeing 737 Max stays grounded for longer than expected while investigations continue into two fatal crashes involving the aircraft.

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