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Morning Market Pulse - China plays "catch-down" after Golden Week

Mike van Dulken, Head of Research at Accendo Markets, commented to clients this morning:

FTSE 100 Index called to open flat at 7318, but back below the 7323 key level (mid-Sept breakout) it re-tested late Friday. Bulls need a break above 7340 overnight highs. Bears require a meaningful breach of the 7300 lows tested Friday. **Watch levels: Bullish 7340, Bearish 7300**

Calls for a muted open come after a downbeat start to the week in Asia. Most markets are lower but China is suffering most (steepest one-day losses of 2018) as it returns from the Golden week holiday, reacting to trade concerns (US not allowing Mexico or Canada strike trade deals with China), higher bond yields and allegations of spy chips implanted by semiconductor manufacturers.

China's PBOC central bank moved to limit declines by lowering Banks' Reserve Requirement Ratios (RRR), effectively loosening monetary policy by \$109bn. Strong China PMI services also failed to help but could yet boost FTSE Miners, although we note dual-listed (London-Sydney) sector members down up to 3% in Australia overnight.

In corporate news this morning Schroders responds to media speculation and confirms discussions with Lloyds Banking about a wealth management alliance. 21st Century Fox offer for Sky lapses. Struggling UK retailer French Connection confirms speculation it may be up for sale.

Unite Q3 portfolio valuation; USAF Student Accommodation portfolio £2.23bn, +1.1% QoQ like-for-like, 5.3% yield, 98% of beds let; 9 LSAV investment portfolio £1.2bn, +1.6%, 4.6% yield. Lancashire Holdings divulges \$30m exposure to loss events within marine portfolio and accumulated attritional losses of \$25-45m from natural catastrophes. Expects negative Q3 return on equity

Legal & General completes £2.4bn buyout of Nortel Networks UK pension plan (over 22K members) bringing its total volume for pension de-risking business to £8.4bn YTD. Dechra Pharmaceutical makes £4.4m bolt-on acquisition; Caledonian Holdings; 2.4x sales. IP Group announced failure of a congenital adrenal hyperplasia (CAH) phase III clinical drug trial in one of its portfolio companies (Diurnal).

XP Power 9M revenues +18% (+24% at constant FX, +11% like-for-like); orders +11% YoY (+18% at constant FX; +8% like-for-like). Trading been robust; Upped inventories to resolve issues. Div +6%. Expects results in-line with consensus. Mitie Group acquires Vision Security (£192.1m revenue, £2.7m pre-tax loss in 2017) from Compass Group for £14m (debt free), adding £42.4m in assets.

Reach Q3 trading revenue +21% YoY, reflecting acquisition of Express & Star. Like-for-like revenue -7%. Circulation ad revenue -4%, Publishing -20%, Digital +7%, Transactional +12%. On track to deliver £2m integration savings from Express & Star M&A in 2018 and at least £20m p.a. by 2020.

In focus for this relatively quiet week (especially today; US Columbus Day holiday) will be a batch of UK macro data (all Weds). This includes August GDP (Weds, 9:30am) expected +0.1% MoM (vs +0.3% in July). That said, the 3-month average growth is still projected at an unchanged 0.6%.

Meanwhile the UK Trade Deficit (Weds, 9:30am) is seen widening to £1.8bn in August, reversing most of the June-July improvements to the smallest deficit since February. Watch GBP pairs for reaction, with a knock-on for FTSE.

In other UK macro data, Industrial Production (Weds, 9:30am) is expected to have accelerated in August (est. 1% YoY vs. 0.9% prev.), while Manufacturing Production holds firm at 1.1% YoY. In a more worrying sign for FTSE Housebuilders, Construction Output forecast to slow to 1.4% YoY growth after a 3.5% expansion in July that extended April's accelerating rebound.

The rest of the week is light on data releases, with the exception of US Inflation (Thurs, 1:30pm). Headline CPI is projected to pull back in September (est. 2.4% YoY against 2.7% prev.), but the more stable core metric firm at 2.3% YoY (2.2% in August). Signs of economic overheating could add yet more fears of the Fed needing to be more hawkish.

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