



# FTSE & SMALL CAP MARKET REPORT

January 12 2018

## FTSE 100 ambles to another high

- FTSE 100 up 16 points at 7,779
- New closing high for Footsie up 55 points on the week
- GKN and Smiths Group shares jump
- US retail sales miss forecasts

The FTSE 100 hit another high, with a bit of a leg-up from US stocks.

The FTSE 100 closed at 7,779, up 16 points, with engineering group GKN PLC (LON:GKN) leading the way.

GKN saw its market capitalisation rise by a tad over a quarter as it fended off a bid approach from Merose Industries PLC (LON:MRO), which rose 4.4%.

Melrose pitched its bid at 405p a share; GKN's shares closed at 417.69p.

4pm: FTSE 100 on track for new record close

The FTSE 100 is on track for a fresh record close even as the pound reached its highest level against the dollar since the Brexit vote in June 2016.

Spreadex's Connor Campbell said the dollar was "really down in the dumps today" after positive political updates from the Eurozone and the UK and a disappointing afternoon of US data.

"As expected US inflation fell from 0.4% in November to 0.1% in December, though the core reading actually beat estimates as it rose from 0.1% to 0.3%," he said.

"Retail sales were just as troublesome, dropping from an upwards revised 0.9% to a worse than forecast 0.4% for the festive month.

"Even on a normal afternoon the dollar likely would have been unimpressed by these numbers - on a day when it was already in trouble they must have felt like a slap in the face."

Cable gained thanks to reports about Spanish and Dutch finance ministers backing a soft Brexit.

Euro's strength is due to progress of coalition talks in Germany coupled with hawkish meeting minutes from the European Central Bank.

"Of course the Dow Jones, with its multinational make-up, was more than happy to watch the dollar cliff-dive, with the greenback's issues fuelling the index's 150 point, 25700-crossing, record-breaking climb," said Campbell.

3.40pm: US data points to more interest rate hikes, says ING

The increase in the US core consumer price inflation rate and growth in retail sales could fuel expectations that the Federal Reserve is to tighten policy further, according to ING Research.

Core CPI edged up to 1.8% in December from 1.7%, led by rises in housing and medical care items. The Fed is targeting 2% inflation and has cited low CPI as a concern.

"If inflation rises as we suspect then this will only heighten market expectations that the risk is skewed towards a more aggressive series of Federal Reserve rate hikes," said ING.

### Share Information

#### MarketTopic Synopsis:

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

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While retail sales growth slowed to 0.4% in December from 0.9% in November, ING said three -month annualised retail sales increase remains in double digits at 11.3%.

"With the US' activity story benefiting from strong domestic momentum and rapidly improving global demand, we continue to look for US GDP to expand by 3% this year."

3.20pm: Spanish and Dutch finance ministers seek soft Brexit deal

The pound rise against the dollar appears to be fuelled by reports that Spanish and Dutch finance ministers have agreed to work together to push for a Brexit deal that keeps the UK's ties with EU close.

Spanish Economy Minister Luis de Guindos and his Dutch counterpart Wopke Hoekstra met earlier this week when they discussed their common ground on Brexit, Bloomberg reported, citing sources.

Sterling its up 0.9% to US\$1.3671.

2.50pm: Wall Street off to a flyer; drags Footsie into the blue

Stocks got off to a flying start although Facebook Inc's (NASDAQ:FB) decline weigh on the Nasdaq Composite.

The Nasdaq Composite was up 4 points, or just 0.1%, compared to the 8 point (0.3%) rise on the S&P 500, at 2,776.

The Dow Jones was sitting pretty with a triple-digit gain at 25,739, up 163.

Facebook was down 4.6% at US\$179.13 after a negative reaction to changes to its news feed.

Investors were poring over the latest consumer price data, which showed the annual inflation rate fell to 2.1% from 2.2% in November, largely because of gasoline prices.

Back in Blighty, the FTSE 100 was up 19 at 7,782, having picked up following the strong start by Wall Street.

2.10pm: Trump will be 'frustrated' after US retail sales miss, says analyst

Today's US retail sales will disappoint the White House after missing expectations, according to Dennis de Jong, managing director at UFX.com

"President Trump, will be frustrated that the US consumer has been less extravagant than he may have liked, but this could all change next month after the expensive Christmas period comes to an end.

"The president has been reliant on bullish US retail figures to drive growth in recent months, and he will hope that next month's data can rediscover the impressive results that were recorded towards the end of last year."

2.00pm: FTSE dips as cable strengthens

The pound has risen to its highest level against the dollar since the Brexit vote at US\$1.37 following US data and reports that Spain and the Netherlands are willing to back a soft Brexit.

Pound jumps to 18-month high!

— Neil Wilson (@neilwilson\_etx) 12 January 2018

A stronger pound saw the FTSE 100 backtrack from its earlier rally with the index falling 4 points to 7,758.

1.45pm: Core US CPI below Fed's 2% target

Weighing in on the US inflation data, Jacob Deppe, head of trading at online trading platform Infiinox, said there are two ways to look at the figures.

"The first is that core CPI is stubbornly below target and so monetary policy should be held until the US Federal Reserve has a clearer picture of the state of the US economy," he said.



"The second is to ignore the fact core CPI is below the Fed's 2% target and argue it has held pretty steady, and close enough to target, not to halt further rate hikes.

"Both positions explicitly accept that below target core CPI remains hard to explain, unless you accept that it is being held back by weak wage growth."

1.30pm: US inflation eases in line with expectations while retail sales data misses forecasts

US consumer price inflation rose at an annual rate of 2.1% growth in December, in line with expectations, easing back from 2.2% in November.

On the month CPI grew 0.1%, also as expected, after a 0.4% rise in November, the Labor Department revealed.

\*U.S. DECEMBER CONSUMER PRICES RISE 0.1%; CORE INDEX CLIMBS 0.3%

— Michael Hewson ????????? (@mhewson\_CMC) 12 January 2018

Excluding volatile items such as food and energy, the so-called core CPI rose at a annual rate of 1.8% in December after a 1.7% rise a month earlier. Month-on-month core CPI increased 0.3%, up from 0.2% in November.

The Commerce Department said US retail sales rose 0.4% month-on-month in December, missing expectations of 0.5%, following an upwardly revised 0.9% gain in November.

US Retail Sales Advance (M/M) Dec: 0.4% (est 0.5%; prev R 0.9%)

-Ex-Auto (M/M) Dec: 0.4% (est 0.3%; prev R 1.3%)

-Ex-Auto & Gas (M/M) Dec: 0.4% (est 0.4%; prev R 1.2%)

— LiveSquawk (@LiveSquawk) 12 January 2018

Sales, excluding motor-vehicle dealers, also increased 0.4% after rising an upwardly revised 1.3%.

12.40pm: US stock futures rise ahead of key data

US stock futures are pointing to a higher open as investors looked ahead to inflation and retail sales data.

Dow Jones Industrial Average futures increased 93 points to 25,648, S&P 500 futures rose 5 points to 2,774 and Nasdaq futures added 7 points to 6,733.

US inflation data, due at 1.30pm, is expected to show a slowdown to an annual rate of 2.1% in December from 2.2% in November.

US retail sales are expected to have risen 0.5% in December compared to a month ago.

On the company front, JPMorgan Chase & Co (NYSE:JPM) was flat in pre-market trading after reporting a 37% drop in the fourth quarter.

Sector peer Wells Fargo & Co. (NYSE:WFC) is to publish its results later.

Facebook Inc (NASDAQ:FB) shares fell after chief executive Mark Zuckerberg said changes to website could hit its bottom line.

12.00pm: GKN continues to lead FTSE higher

The FTSE 100 rose 17 points to 7,780 at midday, driven by a surge GKN PLC (LON:GKN) shares.

GKN PLC (LON:GKN) shares shot up 26% to 421p after appointing a new chief executive, rejecting a takeover bid from Melrose and announcing the separation of its automotive and aerospace businesses.

"Despite cable's gains, the 25% surge seen by GKN - which rejected an unsolicited takeover bid by Melrose, only for



the latter to state it would be back - and the reversal of early losses in the commodity sector allowed the FTSE to eke out a 0.2%," said Connor Campbell, financial analyst at Spreadex.

"That leaves the UK index at a record peak of 7,780, around 50 points higher than where it started the week."

Smiths Group PLC (LON:SMIN) shares grew 4% to 1,645p after Goldman Sachs lifted its target price on the stock and after the maker of medical devices said that new tax rules in the US will have a favourable effect in the current year and beyond.

Packaging and paper company Mondi Plc (LON: MNDI) was up 2% to 1,930p after a rating upgrade from Investec.

Engineer Rotork PLC (LON:ROR) shares rose 3% to 300p after HSBC raised its rating to 'buy' and lifted the target price to 335p from 250p, saying it expects order intake to improve on a recovery in oil and gas markets.

B&M European Value Retail (LON:BME) climbed 3% to 410p after the discount retailer reported strong quarterly sales on the back of its rapid expansion.

Just Eat PLC (LON:JE.) shares dropped 1% to 793.60p a day after its shares jumped following an upgrade by Barclays to 'overweight' from 'neutral'.

Bookmaker Ladbrokes Coral Group PLC (LON:LCL) shares fell 1% to 184p after JPMorgan Cazenove lowered its rating to 'neutral' from 'overweight', citing newsflow risk.

Bovis Homes PLC (LON:BVS) erased earlier gains after Peel Hunt cut its rating on the stock to 'hold' from 'add', saying it believes its shares "may pause for a bit following the bounce up in the last 4-5 months". Shares were flat at 1,151p.

Mitchells & Butlers PLC (LON:MAB) share rebounded 1% to 271p following an a decline in early trading after reporting a slowdown in sales growth over the past seven weeks.

In currencies, the pound rose 0.5% versus the dollar to US\$1.3618 but fell 0.07% versus a stronger euro to €1.1245.

The euro reached a three-year high against the dollar at €1.2136 following news that German Chancellor Angela Merkel's conservative Christian Democratic Union bloc and the centre-left Social Democrats were preparing to recommend formal coalition negotiations.

11.30am: Melrose suggests it will continue to pursue GKN

In a statement, the company said it believes it can "re-energise and re-purpose" GKN, suggesting it will continue pursue the group.

"Melrose believes that there would be significant operational and commercial benefits arising from Melrose's ownership of GKN's businesses, reversing a history of existing GKN management not delivering on margin targets," it said.

"GKN announced today its intention to separate the businesses. Melrose believes that shareholder value would be maximised by it significantly improving the businesses prior to any separation. The potential acquisition represents a significant opportunity for Melrose to execute on its strategy of maximising inherent value of specialised industrial businesses it owns."

10.50am: Government urged to take back control of Carillion contracts

Troubled contractor Carillion PLC (LON:CLLN) shares are sitting 1% lower at 19p after Peel Hunt downgraded the stock to 'sell' from 'under review'.

The broker said : "We suspect that given its mounting liabilities, recent press comment, growing customer worries and supply chain hesitancy that Carillion will be forced (by the banks) to accelerate its financial restructuring."



The government is being urged to bring contracts from the company back to public control amid worries it could collapse.

Carillion, whose contracts with the government include work on schools, the NHS and the HS2 project, has met with lenders to discuss options to reduce debt.

Shadow business secretary, Rebecca Long-Bailey, said: "The collapse of Carillion could provoke a serious crisis.

"It would have major implications for the outsourced government contracts the company holds, as well as the firm's thousands of workers, those in the supply chain and those who rely on Carillion's pension fund.

"The government, who, despite warnings carried on with its programme of outsourcing public services to this company, must stand ready to bring these contracts back into public control, stabilise the situation and safeguard our public services."

10.10am: GKN on FTSE 100 leaderboard

GKN PLC (LON:GKN) is the biggest riser on the FTSE 100 this morning after appointing a new chief executive, rejecting a takeover bid from Melrose Industries PLC (LON:MRO) and announcing the separation of its automotive and aerospace businesses.

The news comes two months after ousting incoming chief executive Kevin Cummings and announcing a further write-off at its US aerospace business in the wake a recent profit warning.

"GKN has made up for years of lumbering progress in a flash. A takeover offer, subsequent rejection, new CEO, transformation strategy, trading update and planned separation of the business all in one go - it's hard to describe GKN as a Mondeo now!," said Nicholas Hyett, equity analyst at Hargreaves Lansdown.

Hyett added: "The money to be made from a split is likely to have been what drew turnaround specialist Melrose to the table in the first place - the challenge for newly confirmed CEO Anne Stevens is to deliver a better result for shareholders than the 405p she turned down today."

9.30am: Analysts welcome Bovis Homes turnaround progress

The latest trading update from Bovis Homes has impressed with analysts saying it has made progress in its turnaround following a faulty homes scandal and takeover bids from Galliford Try and Redrow last year.

Greg Fitzgerald, who was brought back as chief executive in April last year to help overhaul the business, said the group delivered against all of its 2017 financial and operational targets as it worked to put its faulty homes scandal behind it.

"Yet more encouraging results from Bovis Homes today confirm what we always suspected - that the problems with build quality and contractors could be easily fixed and Greg Fitzgerald was the man for the job," said Neil Wilson, senior market analyst at ETX Capital.

"The market could not be more favourable with low interest rates, high employment, low supply and high demand. Bovis was at risk of missing out but it seems to have caught up."

Shares rose 3% to 1,185p.

8.30am: London stocks open higher

The FTSE 100 rose 9 points to 7,771 in earlier trading, led by GKN PLC (LON:GKN).

GKN shares surged 20% to 397p after saying it rejected a takeover bid from Melrose Industries PLC (LON:MRO) and appointed Anne Stevens as its new chief executive. In November, the automotive and aerospace components company revealed it had ousted incoming chief executive Kevin Cummings as it announced a further write-off at its US



aerospace business in the wake a recent profit warning.

Shares in Melrose also shot higher.

Bovis Homes Group PLC (LON:BVS) shares gained 3% to 1,188p after the housebuilder said it expects to pay a special dividend in the fiscal year 2018 as it improves its balance sheet.

Mitchells & Butlers PLC (LON:MAB) shares fell 2% to 261p after reporting a slowdown in sales growth over the past seven weeks, blaming bad weather.

Oil and mining shares reversed the previous day's rally with BHP Billiton plc (LON:BLT), Rio Tinto (LON:RIO), BP PLC (LON:BP.) and Royal Dutch Shell PLC (LON:RDSB) on the back foot.

In economic data, China's trade surplus in dollar terms rose to US\$54.69bn in December from US\$40.21bn the previous month, beating expectations of US\$37.44bn. Exports rose 10.9% following a 12.3% rise in November, compared to forecasts for a 10.0% increase. Imports grew just 4.5% after a 17.7% jump a month earlier, missing estimates for a 14.8% rise.

Later in the session, US consumer price inflation data will be released with analysts expecting growth to slow to 2.1% year-on-year in December from 2.2% in November. US retail sales data is expected to reveal a 0.5% rise in December compared to a month ago.

Proactive news headlines:

Sirius Minerals PLC (LON:SXX) is confident production of polyhalite at the York Potash project will start on time and on budget. A quarterly update indicated there had been some delay to excavation of the mine, called Woodsmith, due to the weather in Yorkshire, but Sirius is confident it can make up the time lost.

Ferrum Crescent PLC (LON:FCR), the European lead-zinc explorer, has announced the appointment of Colin Bird as a non-executive chairman, with immediate effect. The AIM listed group said Grant Button, its interim non-executive chairman, will resume his former role as non-executive director.

FFI Holdings Plc (LON:PLC) has broadened the scope of its insurance business with the acquisition of a motorsports events specialist and expects to announce another deal this month. Subsidiary Reel Media, which FFI acquired in December, has bought the business from US broker All Risks for US\$1.83m.

Telit Communications Plc (LON:TCM) revealed that the tax case relating to its Italian business has reared up again. Last summer, the industrial Internet of Things specialist won a court battle with the Italian tax authorities when the latter's appeal against the annulling of three VAT assessments for Tallit's Italian business was rejected. Now it has emerged that the country's authorities have submitted appeals to the Italian Supreme Court, after two tiers of lower level court found in Telit's favour.

African Potash Ltd (LON:AFPO) furthered its entry into game-changing blockchain technology - striking a deal on a joint venture with Gibraltar firm TokenCommunities Limited. The group said this will complement the FinComEco joint venture struck in November and will bolster its plans to operate a range of platforms and projects in the agricultural commodity markets sector in sub-Saharan Africa.

Oracle Power PLC (LON:ORCP) is to take full ownership of the company that owns the mining lease for the Thar coal to power project in Pakistan. Anthony Scutt, Oracle's chairman, said: "The move to 100% ownership of SCEL is a material development for Oracle, clearing a significant hurdle as the Company moves to financial close.

Goldplat plc (LON:GDP) has made a breakthrough in its dispute with Rand Refinery - as the pair have agreed a proposed full and final settlement.

Ortac Resources has changed its name to Arc Minerals Ltd (LON:ARCM) with immediate effect. The company's new





ticker will be ARCM.LN and trading under the new name is expected to commence on or around 22 January 2018.

Advanced Oncotherapy (LON: AVO), the developer of next-generation proton therapy systems for cancer treatment, has announced that yesterday Dr Enrico Vanni, a non-executive director of the company purchased 40,000 ordinary shares at a price of 54.5p each. Following this transaction, Dr Vanni now holds 1,263,946 ordinary shares, representing 1.56% of the issued share capital.

6.40am: FTSE set to open in positive territory

FTSE 100 is poised to continue climbing on Friday after another record finish yesterday, buoyed by more gains on Wall Street and after mixed trading in Asia overnight.

Despite retailers lagging, Britain's blue chip index closed up 14 points at 7,762 - its third record peak in a row - and is called by spreadbetters at IG Index to start around three points higher today.

In the US, the rally of 2018 shows no sign of abating with the Dow Jones soaring 205 points to finish at 25,574 and the broader S&P 500 up 19 at 2,767.

It was a less glowing picture in Asia overnight where the Nikkei 225 in Japan is down 58 points at 23,652 - falling for a second day - on a strengthening yen.

The Shanghai Composite Index is also lower, off around six points, as the latest Chinese trade data showed both imports and exports slowed in December.

Of interest today on the macro front will be US inflation data, which will lead to further debate about the pace of interest rate rises, and US retail sales stats covering the run up to Christmas.

Meanwhile in London, on the company front, pubs and property are on the menu.

Housebuilder Bovis Homes Group PLC (LON:BVS) will come to the market with a trading statement, while Mitchells & Butlers PLC (LON:MAB) will also update on trade.

Significant events expected:

Trading updates: Bovis Homes Group PLC (LON:BVS), Mitchells & Butlers PLC (LON:MAB), Tarsus Group PLC (LON:TRS), XP Power Ltd. (LON:XPP)

Interims: Artemis Alpha Trust PLC (LON:ATS)

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