

FTSE & SMALL CAP MARKET REPORT

12:30 09 Jul 2019

FTSE 100 closes in red as traders await Fed chair comments

- FTSE 100 closes down nearly 13 pts
- Ocado top gainer on Footsie
- Melrose Industries tumbles on read-across from BASF

FTSE 100 closed in the red on Tuesday, while US stocks were mixed, as traders await testimony from Fed chairman Jerome Powell, which is due to start tomorrow (Wednesday).

The Footsie closed the afternoon session down nearly 13 points at 7,536.

Meanwhile, FTSE 250 finished over 114 points lower at 19,467.

The shine has come off the gold price slightly, with an ounce of the yellow metal down 0.08% to US\$1,398 at the time of writing. Sterling was also lower against the US dollar on renewed fears of a 'no-deal' departure by the UK from the EU.

In the US, the Dow Jones Industrial Average shed nearly 94 points but the Nasdaq is up over 25.

David Madden, analyst at CMC Markets UK said traders were less hopeful that the Federal Reserve will adopt a very dovish stance.

"The solid headline jobs report from the US on Friday tilted expectations about future monetary policy, and now we are seeing stocks retreat even further from the all-time highs that were set recently," he said in a note.

Online grocer Ocado (LON: OCDO) swung to being top gainer on Footsie today, having been top laggard yesterday on fears of today's trading statement. The firm did post a 46.3% drop in first-half earnings after a fire destroyed one of its warehouses but investors cheered a big uptick in fees received from international partnerships.

Shares added over 5.6% to 1,236.5p.

4pm: Melrose hit by read-across from BASF profit warning

Despite sterling's travails on the foreign exchange markets, London's blue chips have not fared well.

The FTSE 100 was 15 points (0.2%) in the hole at 7,534, with engineering conglomerate Melrose Industries PLC (LON:MRO) the hardest hit on a read-across from a profit warning by German chemicals giant, BASF.

Melrose shed 4.6% at 178.2p after BASF issued a profit warning, citing difficulties in the car industry as a major reason for its underperformance.

Melrose, through its GKN unit, is a major supplier to the car industry, which has been hit by escalating trade tensions.

Platinum refiner Johnson Matthey PLC (LON:JMAT), a specialist in catalytic convertors used in cars, was down 1.1% at 3,299p for much the same reason as Melrose.

2.50pm: UK stocks' losses lengthen

US stocks opened on the back foot for the third day in succession.

The Dow Jones 30-share industrial average was down 103 points (0.4%) at 26,703 while the S&P 500 was off 9.4

Share Information

MarketTopic Synopsis:

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

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points (0.3%) at 2,966.5.

Traders looking for a bit of sizzle have turned to the cryptocurrency market, where bitcoin has shot up US\$194 (1.6%) to US\$12,406.

In the UK, the Footsie's losses have lengthened to 24 points (0.3%) at 7,526. The mid-cap FTSE 250 has fared even worse, giving back 160 points (0.8%) at 19,422

Low-cost airline easyJet PLC (LON:EZJ) was one of the big mid-cap casualties, diving 4.3% to 974p after Oddo downgraded the stock to 'reduce' from 'neutral'; the broker also trimmed the target price to 1,050p from 1,170p.

Shopping centres owner intu Properties PLC (LON:INTU) hardened 1.5% to 79.5p after it revealed that the formation of the joint venture (JV) with the Kuwait Investment Authority is now complete. The JV will take ownership of the intu Derby shopping centre.

1.15pm: US benchmarks expected to open lower

Ahead of a US open that is expected to see stocks retreat, London remains utterly becalmed.

A fall of 3 points (0.0%) by the Footsie to 7,546 almost counts as a decisive movement on a day like today where trading has been torpid.

The near-certainty that many pundits had over the US central bank's appetite for rushing through as many as four rate cuts before the year is out has largely disappeared, leaving those same pundits - to borrow a phrase of Glenn Hoddle - "scratching their 'eads" over whether the Federal Reserve will even manage two more cuts this year.

"Interestingly, expectations for rate cuts remain bullish, even if the odds of a 50 basis point cut this month have been dramatically pared back. We'll have plenty of opportunity to see whether they're justified this week, as Fed Chair Powell makes numerous appearances - along with his colleagues - and we get the minutes from the June meeting," said Craig Erlam at Oanda.

"I'm not convinced that investors will get the message they're after this week, with Powell in the past having been very conservative in his interest rate rhetoric," Erlam added.

Spread betting quotes suggest the Dow Jones industrial average will open around 104 points lower at 26,702 and the S&P 500 12 points lighter at 2,964.

The US index of small-business optimism from the National Federation of Independent Business fell to 103.3 in June from 105.06 in May, versus expectations of a reading of around 104.0.

"The most important number in this report is selling prices, which rocketed to 17 from 10. The index usually is responsive to gasoline prices, which dipped last month, pointing to a two-point dip," commented Ian Shepherdson at Pantheon Macroeconomics.

"We assume this jump reflects the increase in tariffs on Chinese imports in May, from 10% to 25%, so we doubt it will reverse anytime soon," he added.

12.15pm: Quiet morning ends with the Footsie little changed

Like a boat tethered to a buoy, the Footsie has spent the day gently going round in circles.

The index of leading shares ended the morning session more or less unchanged, thanks largely to investors' enthusiasm for housebuilding stocks on the day the mid-cap builder Bovis Homes Group PLC (LON:BVS) issued a trading statement.

As it happens, while its peers have had a decent morning, Bovis was down 3p at 1,011p following its update.

"Greg Fitzgerald's turnaround is delivering impressive results," said Hargreaves Lansdown analyst, George Salmon, referring to the company's chief executive.

"However, the uncertainty around the UK's impending exit from the EU means it's not an entirely pretty picture, and probably explains why the shares offer a 10% dividend yield. Heightened operating efficiency, a stronger balance sheet and quality improvements will help insulate the group against the challenges a disorderly Brexit could bring, but only to a degree," Salmon cautioned.

ClearStar Inc (LON:CLSU) was wanted after its trading update that revealed half-year revenues hit a record level in the first six months of 2019.

The background and medical screening specialist's shares were up 11% at 60p.

10.45am: Losses extend as investors shun miners

The Footsie's losses have lengthened, thanks in part to investors spurning mining shares this morning on fears of slowing global growth.

The FTSE 100 was down 24 points (0.3%) at 7,525.

"The US economy might be in fine form, but it is increasingly looking like an outlier in a world of slowing growth," suggested Chris Beauchamp at IG Group.

"A sign of how tough things are is evident in the FTSE 100's losses, which are widespread, while the slump in sterling to new lows for the year is having only a moderate impact in lessening the declines in UK stocks. While the FTSE 100 has outperformed its continental peers this morning, it is not immune from the declines in risk appetite, with key growth sectors such as mining in the red," he added.

There has been little blue-chip news to get traders excited. Legacy software specialist Micro Focus International PLC (LON:MCRO) failed to get the pulses racing with its half-year results; the shares were off 1.7% at 2,061.5p after the company reiterated full-year revenue guidance.

A bit of a mess at Renold #RNO - overstatement of asset values and profit figures in Gears business unit - expectations for Gears in 2019 reduced by £1.1M <https://t.co/17BkoJnh1>

— Steve Markus (@smarkus) July 9, 2019

Among the small caps, Renold PLC (LON:RNO), the maker of industrial chains and conveyor belts, said its annual general meeting scheduled for next week would be cancelled following the identification of historical accounting issues.

The shares tumbled 6.4p to 26.3p.

9.30am: Ocado and housebuilders go against the weaker trend

Despite a strong showing by housebuilders and groceries delivery firm Ocado Group PLC (LON:OCDO), the Footsie remains in the doldrums.

The index of heavyweight shares was down 15 points (0.2%) at 7,534.

"Equities are weaker and the dollar firmer as the prospect of the Fed not being as dovish as the market wants it to be takes the shine off things," said Neil Wilson at markets.com.

"All eyes are on Fed chair Jay Powell, who is giving his semi-annual testimony later. Market participants are desperate to see whether he's leaning towards a rate cut or not.

"With minutes from the last FOMC meeting coming tomorrow and some other Fed speakers on tap, this is the key period that will either see the Fed crystallise market expectations for a cut later this month, or gently nudge them back towards a more neutral position. James Bullard and Randal Quarles are also speaking today. Bullard may be interesting as the arch-dove," Wilson added.

Turning to the UK economy, the latest retail sales monitor from the British Retail Consortium offered little comfort for Britain's hard-pressed retailers.

The year-on-year decline in like-for-like (LFL) sales values narrowed 1.6% in June, from 3.0% in May but was marginally wider than the consensus forecast of a decline of 1.5%.

"We flagged yesterday that another weak, weather-related Food performance was likely for last month, but we didn't expect Non-Food to be weak as well, so the net outcome of -1.6% LFL is disappointing, not least as the comp wasn't that tough overall (despite the plethora of World Cup TV sets and paddling pools sold a year ago)," said independent retail analyst, Nick Bubb.

"The exact Food/Non-Food LFL sales split for June is, as usual, buried in the 3-month moving averages of +1.5% and -2.0% respectively, but it looks like Food was a bit under 1% down LFL in June and that means that Non-Food must have been over 2% down LFL last month (despite good trading in Furniture, Homewares and Appliances)," he added.

"Clothing and outdoor goods again bore the brunt of the weather shift compared to June 2018. The separate Online Non-Food sales survey doesn't include the likes of Amazon, but even so the reported growth of only 4.0% is also a bit mediocre, notwithstanding the comp of +8.5% in June 2018," Bubb concluded.

@Ocado Group, the online retailer, losses widened to £142.8M in the 26 weeks to June, as it was hit by exceptional costs following a fire at its #Andover distribution centre sparked by a faulty #IoT robot charger.

— PeterJopling (@PeterJopling) July 9, 2019

At least one retailer - Ocado - is doing all right after taking a bit of shoeing yesterday. The shares were up 7.1% at 1,253p despite what Richard Hunter, the head of markets at interactive investor, termed "an unwelcome distraction" in the form of a major fire at the group's warehouse in Andover.

READ Ocado earnings drop after fire at Andover disrupts business

"The shares have had something of a difficult ride of late, having dipped 17% over the last quarter, although over the last year they remain 15% ahead, as compared to a 2% dip for the wider FTSE100," Hunter noted.

"The potential is clearly positive for Ocado, as evidenced by the initial share price reaction to the statement; however, with the true benefits yet to wash through and given the meteoric share price performance, the current market consensus comes in at a hold as the shares are seen as being up with events - for now," he added.

Keeping Ocado company at the top of the Footsie leader-board were a number of housebuilding stocks, with Barratt Developments PLC (LON:BDEV) the pick of the bunch, up 1.9% at 581.6p.

8.35am: Slow start for Footsie

The FTSE 100 got off to another torpid start, shedding 8 points to 7,541.01 at the open.

Traders were unable to claim any real comfort from the action on Wall Street - which ended Monday in negative territory - or Asia's main financial markets, which also closed in the red.

With the 'blue-pill' of imminent US rate cuts returned to the bedside cabinet, the twin 'bromides' of Brexit and festering trade hostilities continued to haunt London's dealing rooms.

WATCH: Investor Update: Concepta looks ahead to first births with double digit pregnancies

Ocado (LON:OCDO) struck the right note with investors even after announcing that the fire at its Andover warehouse earlier this year cost the online grocer £100mln.

This was largely priced in ahead of the latest results statement however, so its shares rose 1.7% and led the Footsie gainers.

investors looked to the headway being made by Ocado as a technology company, which underpins its current heady stock market rating.

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"However, with the true benefits yet to wash through and given the meteoric share price performance, the current market consensus comes in at a hold as the shares are seen as being up with events - for now."

Proactive news headlines:

ClearStar Inc (LON:CLSU) shined on Tuesday as it recorded its highest-ever six-month revenues in the first half of 2019, with medical information services once again being the primary growth driver.

Ceres Power Holdings PLC (LON:CWR) expects results for the financial year just ended will be ahead of market expectations.

The number of women who have become pregnant after using Concepta PLC's (LON:CPT) myLotus fertility test is now in double figures, with the first births expected later this year.

IQ-AI Limited (LON:IQAI) said its Imaging Biometrics (IB) arm is continuing to develop products that reduce and ultimately eliminate gadolinium-based contrast agents in medical imaging. Its race to find alternatives appears to be a well-timed one given the latest welter of clinical evidence linking these gadolinium products with a host of conditions.

Synnovia PLC (LON:SYN) reported record sales growth but adjusted profits were just above flat as the plastic components and film packaging specialist invested for growth.

Acquisitive telecoms and information technology services provider AdEPT Technology Group PLC (LON:ADT) has made a steady start to the new financial year.

Big data group Rosslyn Data Technologies PLC (LON:RDT) has won contracts with two multi-national companies worth more than £0.6mln.

Collagen Solutions PLC (LON:COS) reiterated it is well set financially and can see a runway to profitability following its £6mln fundraise last month. The comments were made alongside full-year results, which charted 12 months of significant progress, but also announced the retirement of chairman David Evans, who has a muscle wasting disease.

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Genedrive PLC (LON:GDR) "remains confident" that the World Health Organisation will 'pre-qualify' its HCV ID hepatitis C test within the next few months, despite some delays to the clinical trial.

Chariot Oil & Gas Limited (LON: CHAR) chief executive Larry Bottomley has highlighted that the Anchois gas discovery, part of the Lixus licence, is expected to deliver strong returns and significant cash flow. The Chariot boss, in a statement ahead of today's AGM, noted that Anchois may host one trillion cubic feet of gas resources which makes it a strategically important indigenous source of gas for Morocco.

Base Resources Ltd (ASX:BSE) (LON:BSE) has completed the transition of mining operations to the South Dune orebody at its Kwale operations in Kenya.

Benchmark Holdings PLC's (LON:BMK) has announced that Mark Plampin will step down from his current role as chief financial officer to pursue other opportunities.

After some delay, Regency Mines PLC (LON:RGM) has managed to secure an investment into its US coal business, Mining Equity Trust. Following the US\$750,000 investment into MET by investment company Carraigbarre Capital Ltd, Regency will hold a 25.84% stake in MET.

Five EQTEC PLC (LON:EQT) directors have agreed cash reductions to their remuneration to subscribe for new shares in the firm.

IronRidge Resources Limited (LON:IRR), the African-focused minerals exploration company, announced that Tetsunosuke Miyawaki will succeed Ken Tsubaki as a non-executive director with immediate effect. The group noted that Miyawaki, who has to date acted as the alternate director for Tsubaki, formally joins the board as part of the company's strategic alliance with Sumitomo Corporation, the Japan-based global conglomerate which has a 10.2% interest in IronRidge.

Greencoat UK Wind PLC (LON:UKW) announced that Daniel Badger has tendered his resignation as a non-executive director of the company with effect from 31 July 2019.

Bluebird Merchant Ventures (LON:BMV), the Korean-focused gold development group, announced that its chief executive officer Colin Patterson bought 65,000 shares on market at 1.94p each on 5 July 2019 and a further 65,000 shares on market at 1.89p each on 8 July 2019 through Kensington Trust Singapore Limited, with whom he is associated.

6.30am: FTSE 100 set for slow start

The FTSE 100 is expected to start Tuesday on the back foot, in spite of a busier day for UK corporate news, following a negative session overnight on Wall Street.

London's blue chip benchmark is predicted to drop almost 12 points to 7540.1 in opening deals, according to spread-better IG.

US stocks made a weak start to the week on Monday, with the Dow Jones index losing 0.4% to 26,806.14, the S&P 500 index down 0.48%, and the Nasdaq Composite shedding 0.78%.

Asian stocks were mixed on Tuesday, with the Nikkei 225 in Tokyo up 0.1%, the Hang Seng down 0.75% and the Shanghai Composite off 0.6%.

Traders remain a little nervous about the respectable US non-farm payrolls report that was released on Friday, said market analyst David Madden at CMC Markets, having previously been too fixated on the chatter that the Federal Reserve will lower rates this month and possibly later this year.

"Seeing as the US added 224,000 jobs in June, some traders are less confident the Fed will lower interest rates this month, and that is why equities have pulled back in the previous two sessions," he said

Some optimism came from news that US-China trade talks will continue this week.

"The meeting between President Trump and Xi Jinping was a small step in the right direction, but there is still a long way to go," Madden added.

What will Ocado deliver?

Ocado's joint venture with Marks and Spencer PLC (LON:MKS) is likely to be a key focus when the online grocer

reports its interims on Tuesday.

The company's shares received a boost in February when it announced the agreement to help M&S launch an online grocery delivery service for the first time. The £1.5bn deal has provided Ocado with funds to support the expansion of warehouses.

"Investors will be looking for an update on the M&S venture as well as any progress in rebuilding the Andover warehouse, which suffered from a major fire earlier in the year," analysts at The Share Centre said in a preview.

"The market will also be interested in any comments on prospects for further deals with major supermarket groups around the world to develop automated warehouses."

The fire at Andover carved about 1.2% off sales in the first quarter but the FTSE 100-listed firm's retail revenue still rose by 11.2% to £404.0m. The Andover warehouse accounts for about 10% of Ocado's capacity.

Significant events expected on Tuesday July 9:

Trading updates: Bovis Homes PLC (LONLBVS), Robert Walters PLC (LON:RWA)

Interims: Ocado PLC (LON:OCDO), Micro Focus International PLC (LON:MCRO), Amino Technologies PLC (LON:AMO), RM Plc (LON:RM.)

Finals: Synnovia PLC (LON:SYN), Photo-Me International PLC (LON:PHTM), Collagen Solutions PLC (LON:COS), Knights Group Holdings PLC (LON:KGH), K3 Business Technology PLC (LON:KBT)

Around the markets:

- Pound worth US\$1.2511, down 0.1%;
- Gold US\$1,397.6 an ounce, down 0.2%;
- Brent crude US\$63.95, down 0.25%.

City headlines:

Financial Times

- Theresa May and Philip Hammond are on the verge of agreeing a £3bn funding boost for England's schools — but only after the chancellor blocked the prime minister's plan for a massive three-year cash injection in a bitter dispute.
- George Osborne, the former chancellor, is stepping up his efforts to become Europe's candidate for head of the IMF although past and present British officials expressed scepticism on his chances of success.
- AeroFarms, the US indoor farming company, has raised \$100m to further expand its warehouses of stacked growing trays and branch out into different produce.

The Times

- Deutsche Bank is to press ahead with plans for a new UK headquarters despite cutting hundreds of jobs in the City and exiting parts of its London-based investment bank.
- The government had a "pervasive" influence over the strategy taken by a scandal-hit restructuring division of Royal Bank of Scotland that mistreated thousands of businesses, according to documents revealed in a legal claim against the bank.
- A Labour government would try to abolish leasehold ownership for all homes as part of radical plans to be put forward by shadow ministers today.
- Virgin Trains may move into Spain's railways after being disqualified from bidding for new British contracts for refusing to take on pension liabilities.

Guardian

- Fears that Britain's economy has come to a standstill have been heightened by a report from retailers showing annual consumer spending at its weakest since their records began in the mid-1990s.
- Online shopping could more than double its share of the retail market by 2028, according to a report that spells further difficulties for landlords, stores and communities.
- Donald Trump's trade war with China and fears over rising interest rates triggered stock market losses worth \$2tn (£1.6tn) for the world's super-rich last year.
- India's finance minister, Nirmala Sitharaman, has called for the creation of a "social stock exchange", allowing ethically minded investors to buy stakes in social enterprises, volunteer groups and welfare organisations.

Telegraph

- Ford's decision to close its Welsh engine factory was "not directly linked" to the possibility of a no-deal Brexit, its European boss said, but warned that failure to strike a deal could have "significant implications" for its remaining UK plants that employ 10,000 staff.
- The sharp economic slowdown gripping the UK has been even worse than the City feared as speculators ramp up their bets against the pound, with the Citi UK Economic Surprise Index plunging to its lowest level in 13 years.
- The leader widely regarded as the political heir to German Chancellor Angela Merkel has called for the European Central Bank (ECB) to rethink its approach to monetary policy.

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