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FINANCIAL CONSULTANCY

MARKET COMMENTARY

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BREXIT DEBATE INTENSIFIES

This week the inevitable clash between Brexiteers and reality came to pass as Theresa May finally unveiled the Brexit deal. The basic facts are that hard Brexit is too economically destructive to be a genuine option, while any compromises to minimise that harm will leave us subject to EU rules without having a say on them. As was always the case there is no middle ground. Where we go from here is unclear, although we suspect most MPs will conclude a bad deal is better than no deal after all.

While objectively it is a bad deal, a half in – half out Brexit, in many ways it much better than we expected it would be. Some access to the single market is retained; while freedom of movement, budget contributions and shared fishing rights are all over. That negotiators managed to win concessions on European Court of Justice's oversight is genuinely impressive. This deal will have delivered most of what was campaigned for, but it remains to be seen if this pragmatism can win out.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yrs	UK 10 Yrs	Brent Crude	Gold	Wheat	GBP USD
-0.99%	-2.73%	-2.56%	-1.22%	+2.27%	-0.07%	-0.09%	-2.24%	+0.68%	+0.45%	-1.23%

US: FDA SEEKS TO CURB UNDERAGE VAPING

Alarm bells were ringing this week for US E-cigarette companies as the FDA gears up to announce a ban on youth-friendly flavour pods predominately produced by Juul Inc. Juul Inc whose sleek product design, fruity pods and active social media presence quickly grew to become very popular with the younger demographic. The company has gone on to capture 71 per cent of E-cigarette market share since launching in 2017.

The FDA was caught by surprise with surging uptake this year and gave E-cigarette companies six weeks to submit plans on how they would keep menthol products away from minors. The deadline for this passed last weekend. The news that FDA is also mulling a move to restrict menthol in traditional cigarettes sent some of the tobacco companies share prices in retreat. Around 20 per cent of Altria's (the maker of Marlboro) profits were due to the sale of menthol cigarettes. Shares in both companies fell 3.5 and 10.6 per cent respectively earlier in the week.

EUROZONE: GERMAN ECONOMY CONTRACTS

The German economy contracted for the first time in over three years throwing another spanner in the works for the ECB. The Central Bank is expected to announce the end of quantitative easing in the Eurozone in a few weeks even though the region posted sluggish growth last quarter. Germany blamed GDP shrinking by 0.2 per cent between the second and third quarter on a fall in exports.

While a slowdown in growth was anticipated, as German car manufacturers scrambled to comply with the new emissions standard, the contraction was sharper than expected indicating that the country is also feeling the squeeze from the trade war between the US and China. In slightly more upbeat news for Germany, the US has delayed a decision on applying tariffs on foreign cars. Mexico and Canada would be exempt from tariffs having joined the revamped NAFTA agreement, but it would leave the likes of Germany, Japan and the UK as the main targets for the possible tariffs.

GLOBAL: SAMSUNG'S BIOTECH ARM SUSPENDED FROM TRADING

South Korea's Securities and Futures Commission suspended trading of Samsung BioLogics this week and fined the world's third largest contract drugmaker \$7.05m. The regulator ruled that it had committed accounting fraud in 2015 to inflate its value ahead of an initial public offering in 2016. The watchdog also asked the Korean Exchange, to look into whether Samsung BioLogics should be delisted. A delisting would be a massive blow to the Samsung group, which has gambled on the biotech company as a future growth engine to reduce its reliance on the smartphone and semiconductor businesses.

Elsewhere, it was a miserable week for Apple's suppliers. The company suffered from poor unit sales last quarter and in turn, a number of suppliers cut their earnings forecast. Japan Display slashed its full year guidance due to "volatile customer demand" and US based Lumentum Holdings who provide 3d sensing technology also issued a sales warning, citing that it was asked by one of its largest customers to reduce shipments.