

The Week Ahead, 28th September 2020

ANALYSTS BACKGROUND

Fiona has a deep understanding of market fundamentals gained through 14 years' experience in the financial markets. She provides up to the minute analysis and insight into the financial markets, as well as the broader economy and monetary policy in the UK, Europe, US and Asia. She is regularly quoted in the global financial press, with her name often seen on Bloomberg, Reuters, Financial Times and the Telegraph. Fiona is a familiar face after years of regular TV appearances across the globe on the likes of BBC, Sky News and Reuters.



Our pick of the top macro data points and companies reporting this week. Those in bold are discussed below.

ECONOMIC DATA

Monday 28th September	Brexit Talks Resume This Week
Tuesday, 29th September	EZ Consumer Confidence German CPI (Sept) US Trade Balance (August) US Consumer Confidence US Presidential Debate
Wednesday 30th September	China Mfg & Non-Mfg PMI (Sept) German Unemployment & Retail Sales UK Q2 GDP (Final)

	EZ Inflation (Sept) US ADP Employment (Sept) US GDP Q2 (Final) EIA Crude Inventories
Thursday 1st October	Japan Tankan Index (Q3) US Initial Jobless Claims US ISM Mfg PMI (Sept)
Friday 2nd October	US Non-farm Payroll
COMPANY ANNOUNCEMENTS	
Monday 28th September	Reach
Tuesday 29th September	Fergusons Hotel Chocolate Card Factory Cairn Energy Micron Technology Greggs
Wednesday 30th September	Boohoo Compass Group Topps Tiles
Thursday 1st October	Pepsico Ted Baker H&M
Friday 2nd October	
KEY THEME	

Rising Volatility Brexit, US Election & Covid

There is plenty to keep the markets on edge this week. Volatility could be back with a bang as risk events stack up. Rising Covid cases in Europe, the UK and Mid America threaten to derail the fragile economic recovery. In addition to rising Covid concerns, political factors will also take centre stage as Brexit talks resume and the First Presidential Debate takes place between Trump & Biden.

Finally, with fears rising that the economic recovery is slowing, EZ inflation and US jobs data could provide further insight to direct the markets.

THE WEEK AHEAD

Monday

Brexit trade talks resume

The chances of the EU/UK agreeing to a trade deal is about 50/50 although it could be tilting slightly towards a deal being agreed. The Internal Markets Bill produced two weeks ago, which threatens to undermine parts of the Brexit Withdrawal Treaty has raised doubts over the process. Trade talks are set to resume this week and there is still optimism that a deal could still be agreed with Michel Barnier and EU Commission President Ursula von der Leyen both saying that they believe that a deal can still be achieved. Brussels has indicated that it could take legal action against the internal markets bill. However, at the same time they have been careful not to break away from trade talks. Whilst rising covid cases and the growing threat of Scottish independence could encourage the British government to accept a deal, the deal could come at the price of the UK climbing down over state aid. Whether Boris & Co. are prepared to accept this price remains to be seen.

Reach Plc

Reach, the owner of the Daily Mirror and Daily Express is expected to announce interim results on Monday. When we heard from the firm in early July, Reach gave a taste of what is to come, reporting -27.5% decline in revenue in Q2 YoY owing to falling circulation and ad spend. Print Media was down -29.5% in the period whilst digital revenues were down -14.8%. Investors will be keen to hear how Reach views its outlook, particularly in light of the new covid restrictions. Marketing budgets are often the first to be cut when the outlook darkens which will hit advertising revenue at Reach. Cost savings will also be in focus as investors look for an update on the £35 million cost saving plan, which includes axing 12% of the workforce.

Tuesday

Greggs

Greggs will deliver a trading update on Tuesday. Given that office workers were a key part of its customer base, conditions remain very challenging. Whilst office workers were returning, the tightened restrictions and work from home calls from Boris Johnson last week could mean that the coming quarters will be grim too. Greggs posted £62.2 million operating loss in the H1, compared to a £39.9 million profit the year before, owing to locations being closed in lockdown. Sales rebounded firmly in July which could bode well for Q3 numbers. However, with fresh restrictions in place the rebound could slow rapidly. A click and collect service and the ability to order using Just Eat in several cities could help Greggs pull through.

Ferguson

The plumbing and heating specialist is expected to post final results on Tuesday. Expectations are growing that they could become one of the few firms returning to dividend payments, after cancelling the interim dividend that was due in April. The dividend is expected to be approximately 112p roughly in line with last years. Any news on a possible demerger of its UK business will also be closely watched. This would leave the focus on the North American business and Canada where the firm derives around 90% of its revenue. The stock trades at an all-time high after staging an impressive rebound from the mid-March lows.

Wednesday

UK Q2 Final GDP

The final reading of Q2 GDP will reveal the full scale of the covid hit to the UK economy on Wednesday. With lockdown restrictions in place in April, May and June, the second quarter was the most deeply affected by the coronavirus pandemic. The last reading recorded a contraction of 20.4%. April was a low point and economic activity started to show some anaemic signs of life in May and June. Whilst Q3 GDP is expected to be upbeat in comparison with at least half of the losses reversed, the markets could be more concerned about what the future holds, as the UK sees the number of covid cases soar by 46% in a week and as London could go back into lockdown in a matter of days.

Eurozone inflation

This week is set to be an interesting one for the ECB. Inflation data will be a central focus after data last month showed that inflation turned negative. September is not expected to show a turnaround. In fact, inflation could remain negative for the foreseeable future. The unemployment rate for the bloc could also attract some attention. The rate has been kept low thanks to furlough schemes. A slight tick up in the unemployment rate could be on the cards.

Boohoo

Boohoo's interim results come just days after the group vowed to address the issues raised in an independent review following allegations of poor pay and working conditions in its subsidiaries. The online business model proved to be resilient in lockdown, however shares plunged in July over allegations that questioned how the firm arrived at gross margins of 54% and operating margins of 8.7% when its retail prices are so competitive. Any updates will be keenly digested. After 45% surge in sales in Q1, it will be interesting to see if bad press has resulted in customers going elsewhere. Furthermore, any

plans for its latest acquisitions, Oasis and Warehouse will be watched for. The share price surged 15% on Friday and now trades 40% up YTD as it closes in on its all time high.

Compass Group

Compass Group is due to report interim results on Wednesday. Following lockdown, the caterer had reopened 60% of its business by the end of June, this was up from 55% in May. Sales were down 44% in Q3. The firm will be vulnerable to covid tightening covid restrictions and a tough 6 months lies ahead. Questions remain over whether the group will be able to return to the peak sales prior to the coronavirus outbreak and growth rates of 4% -6%. Even if volumes remain depressed, Compass has the advantage that its flexibility on costs and contracts it could result in this being an opportunity to pick up market share from smaller competitors.

Dividends

FTSE 100: Smith & Nephew, BATS

FTSE 250: James Fisher, Kaz Minerals, Murray International, TP ICAP, Scottish Investment Trust

Thursday

Pepsico

Pepsico's broad food portfolio turned out to be a huge asset in the early days of the pandemic. Whilst on the go demand slumped as consumer stayed at home, shopper bought up more snacks and prepared food purchases, meaning that Pepsico's organic sales were flat in the Q2. This quarter is expected to show swings back to normality for both segments. Investors will be keen to receive more insight into market share, particularly against Coke. Broadly speaking a less than 1% increase in revenue is expected. No detailed projections for H2 are expected given the high levels of uncertainty, although insight into its spending and investment plans could be poured over.

Friday

US Non-Farm Payroll

The August non farm payroll report continued to show a slow recovery in the US labour market. The unemployment rate fell by more than expected to 8.4%, a stark improvement from the post lockdown rise to 14.7%. However, with no additional fiscal stimulus from US lawmakers' and rising coronavirus cases in mid America, fears are growing that the recovery is stalling. Expectations are for 865k new jobs to have been created in September. The unemployment rate is expected to tick lower to 8.2%. However, given the recent jobless claims data which remains highly elevated, there is evidence to suggest that the labour market remains strained and the rate in unemployment could actually start to tick higher.

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