ATLANTIC CAPITAL MARKETS

The Week Ahead, 8th March 2021
ECB, UK GDP, Rolls Royce, Morrison

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

ECONOMIC DATA

Monday 8th March	German Industrial Production
Tuesday 9th March	Eurozone GDP Q4 (3rd estimate)
Wednesday 10th March	China CPI **US CPI** US EIA Crude Oil Inventories
Thursday 11th March	**ECB Interest Rate Decision** US Initial Jobless Claims
Friday 12th March	

	UK GDP Monthly Canada Employment Report US Michigan Consumer Confidence
COMPANY ANNOUNCEMENTS	
Monday 8th March	**Direct Line** Pearson Clarkson
Tuesday 9th March	**ITV** Domino's Pizza Cairn Energy Standard Lift Aberdeen
Wednesday 10th March	**Inditex** **Just Eat Takeaway** Legal & General Ibstock Balfour Beaty Tullow oil
Thursday 11th March	

	Rolls Royce **WM Morrison** WPP
Friday 12th March	Berkeley Group Hammerson

KEY THEME

Key themes: Yields, US Stimulus Approval

US treasury yields are expected to remain the key market moving theme this week. Last week the US NFP smashed expectations fueling fears that the US economy could overheat potentially prompting the Fed to hike rates. Fears grew despite Jerome Powell repeatedly telling the markets that the US economy still has some distance to meet the Fed's goals.

The US Senate passed the Biden administration's $1.9 trillion economic stimulus plan which could put further upward pressure on yields. Investors will look closely at several US bond auctions this week in addition to the US CPI for further clues on inflation expectations.

BoE Governor Andrew Bailey is due to speak later today. Any hints that the BoE is looking to slow its bond purchases will make it the second major central back to not push back on bond yields.

THE WEEK AHEAD

Monday

Direct Line

Motor and home insurer Direct Line is due to report final numbers. Direct Line has guided for a combined operating ratio for 2020 ahead of 93-95% target range. Underwriting results will include £35 million of direct covid claims. Without those claims the combined operating ratio would have been closer to 91.6%. Earnings could rise some 8% this year as the insurer attempts to reduce costs and improve performance investors will be listening to guidance closely.

Tuesday

ITV

ITV will report as the share price trades at a 12 month high, but still some 50% below where it was trading over the past 5 years as competition from online streaming hots up. There will be two key areas to watch. Firstly, the Studios Business, an area which is becoming increasingly important to the business. However, the pandemic has increased costs and delayed production which is expected to hit on revenue streams. Secondly, advertising revenue has declined significantly owing to the pandemic as marketing spends dried up. Broadcast revenue is down around 13% in the first 9 months of the year to £1.3 billion. This was expected to recover in Q4, however the UK was then hit by another lockdown.

Wednesday

Just Eat

Just Eat’s will come at a time when the sector is particularly in focus with competitor Deliveroo going public on the same day. Just Eat’s share price is roughly where it was 18 months ago, despite the a surge in demand for take away services across the pandemic given the huge competition. Revenue is growing strongly thanks not only to the supportive market conditions but also thanks to a big marketing drive and investment in growth. Last year JET announced that it will be hiring thousands of couriers as it adds new deliveries to its offering in the UK. Finally, news of where it might see its long term listing will be eyes. The recent purchase of US Grubhub meant it had to list in New York, so will it look to drop its London or Amsterdam European listing?

Inditex

Inditex, the owner of Zara and the largest retail fashion chain in the world is due to report. Lockdown restrictions have hit sales however the move towards digital is accelerating helping to close the gap. The firm aims for 25% of sales to be online by next years. This online drive will see around 1200 smaller store closed globally and flagship store extended. The outlook will be closely monitored. Given the shaky economic outlook the risk exists that cash strapped customers could look to cheaper rivals than Zara, Inditex’s star brand a brand which is considered a premium brand of the high street.

US CPI

Inflation data will be in focus ahead of the Fed's meet up on 17th March and as the recent sharp rise in treasury yields indicates that investors are concerned over the future upward pressure on prices. The strong rise in commodity prices, particularly oil will likely feed through to higher inflation. In January the CPI ticked lower from 1.6% to 1.4%. This move lower could well reverse in the coming months and head back to over 2%. So far, the Covid pandemic has had a deflationary effect owing to the restrictions imposed. However, given the fiscal support, vaccine rollout and consequent reopening of the economy, this could well change to an inflationary impact in the months ahead; an expectation which has sent Treasury yields to a yearly high.

EX- Dividends

FTSE100: Persimmon

FTSE250: Dumelm

Thursday

Rolls Royce

To say that this past year has been a difficult year for Rolls Royce would be an understatement. But we are yet to find out exactly how bad it has been. Rolls Royce had been hopeful that engine flyting time would increase to 55% of 2019 levels by the end of 2020. However, the resurgence of covid & a tightening of travel restrictions meant that this is likely to be downgraded with travel disruptions lasting well into the summer of this year. Investors will be keen to hear more on the restructuring which is in progress with 9000 jobs being cut in order to save £1.3 billion.

Morrison

Morrison fared well over the Christmas period, reporting a 9.3% rise in like for like sales over the festive period. The online business has been a stand out beneficiary from the covid pandemic. Q4 saw a rise of digital sales of 24% compared to the same period a year earlier, mainly thanks to the supermarket's tie up with Amazon and a budding new relationship with Deliveroo. However, it's not all be good news, costs have also risen as a result of the pandemic with Morrison suggesting that costs could be some £50 million across the financial year. Pre-tax profits are expected to be between £420 million - £440 million before the £230 million deduction to repay business rates.

ECB

The European Central Bank meeting will take center stage in Eurozone business this week. It comes as many European governments struggle with both the vaccine rollout and getting a grip on the economic fallout from the pandemic. The central bank is not expected to move on interest rates. It expanded the Pandemic Emergency Asset Purchas Programme for a second time in 2020 in December to €1.85 trillion, and fiscal support in the region is still lacking. The weaker US Dollar which had pushed the Euro comfortably over 1.20 has contributed to deflationary pressure in the region, adding to the ECB's headache. Treasury yields in the US have been on the rise, and so have bond yields in the eurozone too. Borrowing costs are expected to be in focus.

Friday

UK GDP

The UK economy booked a solid 1.2% growth in December. January's figure is expected to be significantly worse given the lockdown measures that were imposed at the start of the year. Service sector activity contracted sharpy in January, which doesn't bode well given that the sector accounts for a80% of UK economic activity. The Bank of England has predicted that the UK economy will contract 4% in the first quarter of the year which could be rather optimistic given that non-essential retailers won't be reopening until 12th April in Q2. Watch GDP