

## REGIONAL MARKETS UPDATE

## EUROPE (2.5 STARS – NEUTRAL)

## EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 55.8 in Jul 17, as compared to a finalised 56.3 in Jun 17
- Advance Consumer Confidence at -1.7 in Jul 17, down from a finalised -1.3 reading in Jun 17
- Retail sales rose 2.6% y-o-y in May 17, as compared to an upward-revised 2.6% y-o-y gain in Apr 17
- ZEW survey (expectations) a 35.6 in Jul 17, down from 37.7 in Jun 17
- Sentix Investor Confidence came in at 28.3 in Jul 17, down from 28.4 in Jun 17

## GERMANY

- Advance composite PMI at 55.1 in Jul 17, down from a finalised 56.4 in Jun 17
- Factory orders rose 3.7% y-o-y in May 17, after a downward-revised 3.3% rise in Apr 17
- ZEW readings fell for both the current situation and expectations survey in Jul 17
- IFO surveys recorded an increase for the current assessment, business climate and expectations surveys in Jul 17

## FRANCE

- Preliminary PMI composite at 55.7 in Jul 17, down from a finalised 56.6 in Jun 17
- Industrial production rose 3.2% y-o-y in May 17, up from a downward-revised 0.1% rise in Apr 17
- Bank of France business sentiment at 103 in Jun 17, INSEE business confidence at 108

## UNITED KINGDOM

- Preliminary PMI Composite at 53.8 in Jun 17, down from 54.3 in May 17
- Retail sales ex auto fuel rose 3.0% y-o-y in Jun 17, up from a 0.6% rise in May 17
- Retail sales ex auto fuel rose 0.9% m-o-m in Jun 17, up from an upward-revised -1.5% decrease in May 17

## MARKET OUTLOOK

European companies on aggregate (as represented by the benchmark Stoxx 600 Index) saw relatively minor changes to their earnings estimates over the month of July, with 2017's earnings lowered -0.9% and 2018's earnings lowered -0.6% (as of 24 July 2017). Year-to-date, 2017's and 2018's earnings estimates have been lowered -1.3% and -1.5% respectively. On a sector basis, European oil and gas firms as a whole saw the heaviest earnings downgrades over the month, with their 2017's and 2018's earnings lowered by -5.6% and -6.1% respectively. Although banks saw slight EPS downgrades on aggregate, the financial services sector saw a 1.8% upgrade to 2017's earnings as well as 2018's estimates. The health care and information technology sectors saw slight earnings downgrades as a whole over the course of July. Year-to-date, the automobile-related and resources-related sectors saw the strongest upgrades for 2017's earnings.

Despite the decline in both Germany's and France's preliminary composite PMIs in July, they remain firmly in expansionary territory, with momentum in both manufacturing and services robust. In terms of other leading indicators, consumer confidence in both Germany and France are at cyclical highs, indicating that the outlook for domestic consumption remains positive. In peripheral markets like Spain and Italy, sentiment is robust as well, which bodes well for overall growth momentum on the continent. In the UK however, consumer confidence has weakened in recent months, and it remains to be seen if business sentiment would be affected by the uncertainty poised by the current Brexit negotiations.

The European Central Bank (ECB) left its key rates unchanged in its July meeting, and made no amendments to its current asset purchasing programme. The move was widely expected by the consensus, with the central bank reiterating that its current programme will continued until end-December 2017 "or beyond if necessary" until "a sustained adjustment in the path of inflation consistent with its inflation aim" is achieved. Similar to its update in June, the ECB has turned more optimistic regarding the growth outlook of the Euro-region, stating that the risks to its outlook are now "broadly balanced". Market participants have started to look for cues or guidance that the ECB will begin to wind down its stimulus programme. We note that inflation is still below target at this juncture, and maintain the view that policy-makers are still maintaining a data-dependent approach, and any modification of its stimulus programme remains to be seen. Across the English Channel, the Office for National Statistics (ONS) in London reported that inflation in the UK rose 2.6% year-on-year in June, slowing from a 2.9% year-on-year rise in May and falling short of the consensus forecast of a 2.9% year-on-year increase. On a month-on-month basis, CPI was flat at a 0.0% change in June, lower than the consensus estimate of a 0.2% rise and down from a prior 0.3% increase. Core CPI, which excludes energy and food articles, rose 2.4% year-on-year, as compared to a prior 2.6% year-on-year increase. Data components indicate that price increases year-to-date have been across various articles, impacting domestic consumption in the UK. It remains to be seen if policy-makers will indeed tighten monetary policy as attention is also on the potential impact stemming from uncertainty in current negotiations regarding the divorce from the European Union (EU).

Over the course of July, the benchmark Stoxx 600 index rose 0.2% in EUR terms as of 24 July 2017 (1.1% in SGD price terms). Some of top performing stocks include Norway's Telenor, Swiss manufacturer Georg Fischer, Italy's Ferrari and British mining firms Antofagasta and Anglo American. On the other hand, Sodexo, SAAB, Siemens and Electricite de France (EDF) were some of the bottom performing stocks in July. Currently, the European equity market trades at 15.9X and 14.5X 2017's and 2018's estimated earnings respectively, as compared to its fair PE ratio of 13.5X. European corporations are projected to see their earnings grow by 11.6% this year and by 9.2% in 2018. Although a certain level of political uncertainty remains over the continent (Brexit negotiations and elections in core EU members like Germany), various indicators and data points suggest that the ongoing recovery is increasingly entrenched. **We maintain a 2.5 Stars "Neutral" rating for Europe, and advocate investors to remain an underweight exposure to European equities in their portfolios.**