

REGIONAL MARKETS UPDATE

EUROPE (2.5 STARS – NEUTRAL)

EUROZONE AGGREGATE

- Advance reading of Eurozone PMI composite at 52.7 in Oct 18, as compared to a finalised 54.1 in Sep 18
- Advance Consumer Confidence at -2.7 in Oct 18, up from a finalised -2.9 in Sep 18
- Retail sales rose 1.8% y-o-y in Aug 18, up from a downward-revised 1.0% y-o-y gain in Jul 18
- ZEW survey (expectations) at -19.4 in Oct 18, down from -7.2 in Sep 18
- Sentix Investor Confidence came in at 11.4 in Oct 18, down from 12.0 in Sep 18

GERMANY

- Advance composite PMI at 52.7 in Oct 18, down from a finalised 55.0 in Sep 18
- Factory orders fell -2.1% y-o-y in Aug 18, after an upward-revised -0.8% decrease in Jul 18
- ZEW readings fell for both the current situation and expectations surveys in Sep 18
- IFO survey for current assessment, business climate and expectations surveys declined in Oct 18

FRANCE

- Preliminary PMI composite at 54.3 in Oct 18, up from a finalised 54.0 in Sep 18
- Industrial production rose 1.6% y-o-y in Sep 18, slowing from an upward-revised 1.9% gain in Aug 18
- Bank of France business sentiment at 105 in Sep 18, INSEE business confidence at 104 in Oct 18

UNITED KINGDOM

- Preliminary PMI Composite at 54.1 in Sep 18, declining from a finalised 54.2 in Aug 18
- Retail sales ex auto fuel rose 3.2% y-o-y in Sep 18, down from an upward-revised 3.6% rise in Aug 18
- Retail sales ex auto fuel fell -0.8% m-o-m in Sep 18, down from an upward-revised 0.5% gain in Aug 18

MARKET OUTLOOK

European corporations on aggregate (as represented by the benchmark Stoxx 600 Index) saw earnings estimates revised 0.5%, 0.6% and 0.4% for 2018's, 2019's and 2020's estimates respectively month-to-date (as of 29 September 2018). Year-to-date, 2018's and 2019's and 2020's earnings estimates were revised upwards by 1.2%, 2.2% and 0.7% respectively. The European oil and gas as well as the basic resources industries once again enjoyed earnings upgrades, continuing a trend of upgrades since the start of the year, with the former seeing a 6.3% upgrade and the latter seeing a 2.1% upgrade over the month. The chemicals industry also saw earnings upgrades as a whole, while European financial services and insurers saw muted earnings adjustments this time round. On the other hand, the automobile industry saw earnings estimates being slashed in October, with the downgrades being broad-based across German, Italian and French companies.

In terms of hard economic data, aggregate industrial production data for the Euro-zone region indicated an increase (0.9% year-on-year) in August, improving from a prior upward-revised 0.3% gain. Retail sales also continued to register gains, increasing 1.8% year-on-year in August as compared to a prior downward-revised 1.0% increase. Consumption has benefited so far from an improving labour market on the continent. The overall unemployment rate declined to 8.1% in August from a prior 8.2%. In terms of leading indicators, the preliminary composite PMI from Markit came in at 52.7 in October, which is lower than the prior month's finalised reading and lower than the consensus forecast. Both manufacturing and services preliminary readings came in below expectations. ZEW survey of expectations also declined for the Eurozone aggregate, and is aligned with ZEW readings for the German economy in October. On a single country basis, France's preliminary composite PMI rose slightly in October but Germany's composite PMI fell more than expected, and is at the lowest in two years. Sentiment has taken a hit recently but it remains to be seen if the current bickering between Rome and Brussels will affect business and consumer confidence in Italy and the broad continent.

The European Central Bank (ECB) left its benchmark policy rates unchanged in its October policy meeting, which was largely expected by market participants and economists. The ECB has commenced reducing its asset purchases to EUR 15 billion per month until the end of December this year, before winding down asset purchases altogether as part of its monetary policy normalisation. The central bank reiterated that key interest rates are expected to 'remain at their present levels at least through the summer of 2018, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.' In the press conference, ECB President Mario Draghi did not comment much on the current situation in Italy, and with regards to global trade concerns, Draghi reiterated that 'risks relating to protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent.'

European equities saw losses in the global equity rout in October, with the Stoxx 600 Index falling -7.2% in EUR terms (-8.0% in SGD price terms) as of 29 October 2018. Randgold Resources, ICA Gruppen and Linde were some of the month's top performing counters, while ConvaTec Group, Valeo and Metro Bank have been some of the bottom performers this time round. Consequently, European equities trade at 12.4X and 11.5X 2018's and 2019's estimated earnings respectively, as compared to its fair PE ratio of 13.5X, with valuations now lower than where they were before relative to where we deemed them to be fair. Growth momentum has moderated lower thus far but we do not expect overall growth to fall off the cliff. **We maintain a 2.5 Stars "Neutral" rating for Europe at the moment.**