

MORNING NEWS CALL

REUTERS

U.S. Edition

Thursday, June 22, 2017

TOP NEWS

• **Obamacare replacement bill to take center stage in U.S. Senate**

A seven-year push by U.S. Republicans to dismantle Obamacare and kill the taxes it imposed on the wealthy will reach a critical phase when Senate Republican leaders unveil a draft bill they aim to put to a vote, possibly as early as next week.

• **Fake online stores reveal gamblers' shadow banking system**

A network of dummy online stores offering household goods has been used as a front for internet gambling payments, a Reuters examination has found.

• **Amazon's grocery push playing catch up with Chinese e-commerce giants**

As Amazon.com Inc looks to swallow U.S. grocery chain Whole Foods, China's tech giants are already digesting hefty bricks-and-mortar deals, taking the lead in the battle to transform supermarket shopping with big data and better supply chains.

• **Accenture's net revenue rises 5.1 pct**

Consulting and outsourcing services provider Accenture Plc reported a 5.1 percent increase in quarterly net revenue on Thursday, as the company's investments to boost its digital and cloud service offerings pay off.

• **Foxconn plans U.S. display making plant for over \$10 bln, scouting for location**

Foxconn, the world's largest contract electronics maker and a major Apple Inc supplier, plans to invest more than \$10 billion in a display-making factory in the United States and will decide on the location of the plant next month.

BEFORE THE BELL

U.S. stock index futures were little changed as **oil** edged up from multi-month lows, but prices remained under pressure from a supply glut. House Price Index and weekly jobless claims are scheduled for release later in the day. Weakness in commodities-related sectors weighed on **European markets**. **Asian bourses** recorded a mixed trading day. The **kiwi** rose after New Zealand's central bank played down the recent rise in the currency, while it kept interest rates steady at record lows as analysts had widely expected. **Gold** prices benefited from a pickup in demand for safe-haven assets.

STOCKS TO WATCH

Results

• **Accenture Plc (ACN)**. The consulting and outsourcing services provider reported a 5.1 percent increase in quarterly net revenue, as the company's investments to boost its digital and cloud service offerings pay off. Net revenue rose to \$8.87 billion from \$8.43 billion in the third quarter ended May 31. Net income attributable to Accenture fell to \$669.5 million or \$1.05 per share, from \$897.2 million or \$1.41 per share, a year earlier.

• **Oracle Corp (ORCL)**. The company's quarterly profit blew past Wall Street estimates and the business software maker forecast an upbeat current-quarter earnings, indicating that the company's transition to cloud is starting to pay off. Net income rose to \$3.23 billion, or 76 cents per share, in the fourth quarter, from \$2.81 billion, or 66 cents per share, a year earlier. Excluding items, Oracle earned 89 cents per share. The company reported an adjusted revenue of \$10.94 billion. Analysts on average had estimated a profit of 78 cents per share and revenue of \$10.45 billion.

ANALYSIS

For thousands of U.S. auto workers, downturn is already here

Wall Street is fretting that the U.S. auto industry is heading for a downturn, but for thousands of workers at General Motors Co factories in the United States, the hard times are already here.

Matt Streb, 36, was one of 1,200 workers laid off on Jan. 20 - inauguration day for Republican U.S. President Donald Trump - when GM canceled the third shift at its Lordstown small-car factory here. Sales of the Chevrolet Cruze sedan, the only vehicle the plant makes, have nosedived as U.S. consumers switch to SUVs and pickup trucks.

Streb is looking for another job, but employers are wary because they assume he will quit whenever GM calls him back.

"I get it," said Streb, who has a degree in communications, "but it's frustrating."

Layoffs at Lordstown and other auto plants point to a broader challenge for the economy in Midwestern manufacturing states and for the Trump administration.

The U.S. auto industry's boom from 2010 through last year was a major driver for manufacturing job creation. The fading of that boom threatens prospects for U.S. industrial output and job creation that were central to President Trump's victory in Ohio and other manufacturing states.

"This is about economics, not what Trump says," said Robert Morales, president of United Auto Workers (UAW) union Local 1714, which represents workers at GM's stamping plant at Lordstown. "Even if Trump went out and bought 10,000 Cruzes a month, he wouldn't get the third shift back here."

Last week the Federal Reserve said U.S. factory output fell 0.4 percent in May, the second decline in three months, due partly to a 2-percent drop in motor vehicles and parts production.



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In Other News

- **Altice USA Inc** (ATUS). The cable operator that Netherlands-based Altice NV formed by acquiring Cablevision and Suddenlink Communications, said on Wednesday it had raised \$1.9 billion in an initial public offering. Taking Altice USA public will give Altice's founder, French billionaire Patrick Drahi, traded shares in the company which he can then use as currency in new acquisitions in order to expand what is already the fourth-biggest U.S. cable provider.
- **Amazon.com Inc** (AMZN). As the company looks to swallow U.S. grocery chain Whole Foods, China's tech giants are already digesting hefty bricks-and-mortar deals, taking the lead in the battle to transform supermarket shopping with big data and better supply chains. China's Alibaba Group Holding and JD.com Inc have invested heavily in offline retail - bricks-and-mortar stores - in recent years to complement their online offerings. With their ready-made payment and social media platforms to lure shoppers, Alibaba and JD.com have helped China become the world's largest online grocery market, far ahead of the United States.
- **Staples Inc** (SPLS). Private equity firm Sycamore Partners is in advanced talks to acquire the company following an auction for the U.S. office supplies retailer, people familiar with the matter said on Wednesday, in a deal that could top \$6 billion. The acquisition would come a year after a U.S. federal judge thwarted a merger between Staples and peer Office Depot Inc on anti-trust grounds.
- **Tesla Inc** (TSLA). The electric-car maker has reached a preliminary agreement with Shanghai to explore production in the Chinese city, Bloomberg reported, citing people familiar with the matter. Tesla's revenue from China more than tripled to over \$1 billion last year, according to its annual report.

ANALYSTS' RECOMMENDATION

- **Cigna Corp** (CI). Credit Suisse raises price target to \$190 from \$185 following the company's first investor day since 2012 where it outlined its futures growth strategy as a stand-alone company.
- **Darden Restaurants Inc** (DRI). Morgan Stanley raises price target to \$86 from \$83 expecting SSS to remain at the high-end of the implied guidance.
- **Oracle Corp** (ORCL). Barclays raises target price to \$55 from \$51; rating overweight after the company reaffirmed its FY18 outlook of double-digit EPS growth.

ECONOMIC EVENTS

- 0830** Initial jobless claims: Expected 240,000; Prior 237,000
- 0830** Jobless claims 4-week average: Prior 243,000
- 0830** Continued jobless claims: Expected 1.928 mln; Prior 1.935 mln
- 0900** Monthly home price mm for Apr: Prior 0.6 pct
- 0900** Monthly home price yy for Apr: Prior 6.2 pct
- 0900** Monthly Home Price Index for Apr: Prior 246.2
- 1000** Leading index change mm for May: Expected 0.3 pct; Prior 0.3 pct
- 1100** KC Fed Manufacturing for Jun: Prior -1
- 1100** KC Fed Composite Index for Jun: Prior 8

S&P 500 COMPANIES REPORTING RESULTS

- Bed Bath & Beyond Inc** (BBBY). Expected Q1 earnings of 66 cents per share
- Carnival Corp** (CCL). Expected Q2 earnings of 47 cents per share

CORPORATE EVENTS

- 08:00** Hain Celestial Group Inc (HAIN). Q4 earnings conference call
- 08:30** Steelcase Inc (SCS). Q1 earnings conference call
- 09:00** Apogee Enterprises Inc (APOG). Q1 earnings conference call
- 09:00** Exlservice Holdings Inc (EXLS). Annual Shareholders Meeting

Mark Muro, a senior fellow at the Brookings Institution, has compiled data from government sources that show the auto industry punching higher than its weight in job creation in recent years - accounting for between 60 percent and 80 percent of all U.S. manufacturing jobs added in 2015 and 2016.

In the first quarter of this year, the auto industry accounted for less than 2 percent of the 45,000 manufacturing jobs created.

"There's no argument with the idea that auto has been pulling the manufacturing sled up the mountain for the last three or four years," Muro said. "If you take auto out, you're left with a very tepid outlook indeed." Long-term auto layoffs could threaten the economies of communities and states directly affected, although after decades of boom and bust, many communities in the auto manufacturing heartland have diversified. In Ohio's Mahoning Valley, which was battered by the collapse of the once-dominant steel industry, the boom in drilling for shale gas helps offset job cuts at auto plants.

Lordstown Mayor Arno Hill says the town salted away money during the boom to pay down its debts and new businesses are coming in, including a \$900-million power plant being built in town that will burn cheap natural gas produced in the region. GM makes up 40 percent of tax receipts versus 85 percent in the early 1990s, he said.

"GM is still the brightest star in the Mahoning Valley, but luckily we have diversified our economy," Hill said. "There is pain for the laid-off workers, but it won't hurt us as bad it used to."

Lordstown's workers have taken steps to blunt the impact of layoffs, with help from GM.

Matt Streb's wife is due to start work soon after getting a degree, while he hopes to return to a former job as a mailman. In the meantime, GM gave advance notice of job cuts so he saved extra money and has drastically cut his spending.

"The auto industry is cyclical and has always had its ups and downs," Streb said. "This is just another Lordstown downturn."



10:00 Apogee Enterprises Inc (APOG). Annual Shareholders Meeting
10:00 Carnival Corp & plc (CCL). Q2 earnings conference call
10:00 Chico's FAS Inc (CHS). Annual Shareholders Meeting
10:30 Avangrid Inc (AGR). Annual Shareholders Meeting
11:00 Commercial Metals Co (CMC). Q3 earnings conference call
11:00 DigitalGlobe Inc (DGI). Annual Shareholders Meeting
11:00 Kroger Co (KR). Annual Shareholders Meeting
11:00 Methode Electronics Inc (MEI). Q4 earnings conference call
11:00 SLM Corp (SLM). Annual Shareholders Meeting
11:00 Verint Systems Inc (VRNT). Annual Shareholders Meeting
13:00 TripAdvisor Inc (TRIP). Annual Shareholders Meeting
13:30 Universal Display Corp (OLED). Annual Shareholders Meeting
17:00 Bed Bath & Beyond Inc (BBBY). Q1 earnings conference call
17:00 Sonic Corp (SONC). Q3 earnings conference call
17:00 SYNEX Corp (SNX). Q2 earnings conference call
19:00 Citrix Systems Inc (CTXS). Annual Shareholders Meeting
19:00 Ultragenyx Pharmaceutical Inc (RARE). Annual Shareholders Meeting

EXDIVIDENDS

Equity Residential (EQR). Amount \$0.50
Independent Bank Corp (INDB). Amount \$0.32
International Flavors & Fragrances Inc (IFF). Amount \$0.64
Portland General Electric Co (POR). Amount \$0.34
Retail Properties of America Inc (RPAI). Amount \$0.17

(All analysts' estimates are according to Thomson Reuters I/B/E/S)

STALLING SEDAN SALES

The decline in U.S. auto sales is still minor compared to the dramatic collapse during the 2007-2009 financial crisis, when demand for new vehicles plunged to its lowest levels in decades.

However, the days when auto assembly and parts plants throughout the Midwest were running flat-out because of high demand for nearly every type of vehicle are over. Recent sales trends show consumers becoming more selective, shunning older models and especially smaller cars.

For much of the boom that ran from 2010 through to a record year in 2016 of 17.55 million new vehicles sold, the share of cars has declined versus "light trucks" - or pickup trucks, SUVs and crossovers.

After peaking at 51.32 percent of all sales in 2012, passenger cars fell to 40.4 percent of sales in 2016. That decline equates to the output of seven or eight vehicle assembly plants. Through the first five months of this year, sedan sales fell 11 percent, even as the light truck category rose 4.7 percent.

To avoid profit-sapping discounts, and reverse a decline in prices of used vehicles, automakers are ordering more and deeper production cuts.

GM has laid off more than 5,000 workers so far this year - including 1,000 at its Fairfax plant in Kansas that makes the Chevrolet Malibu midsize sedan. GM has also laid off 1,100 workers at a plant in Lansing because it has ended production of the GMC Acadia SUV there.

More GM workers will be hit with temporary layoffs this summer. Lordstown will shut up shop for five weeks this summer, much longer than the usual two-week summer vacation closure.

Many laid-off GM workers are finding temporary employment at other facilities or taking permanent transfers to plants like its Arlington, Texas, facility where production of large sport utility vehicles continues unabated. However, those temporary postings require workers to relocate hundreds of miles from home.

Randy Freeman, president of UAW Local 652 which represents workers



at GM's Grand River plant in Lansing, Michigan, which makes sedans, says he has been pleased by GM's efforts to rehire workers and relations with the automaker "are on an upward swing."

The threats to U.S. workers building sedans are not likely to ease, barring a spike in the price of gasoline. Ford Motor Co signaled its long-term pessimism about small-car demand in the United States by announcing plans on Tuesday to shift production of its Focus compact car model to China. The Michigan plant that builds the Focus currently is expected to switch to building trucks and SUVs in 2018.

At GM's Lordstown and Lansing Grand River plants, UAW representatives say they are focused on improving quality in the hope that GM will pick their plant when it's time to find a location for producing a new truck or SUV.

At Lordstown, for instance, union officials tout the fact the plant has just won a quality award for local innovation on a part that helps the Cruz run better.

"We're working hard to make the best product we can," said Glenn Johnson, president of UAW Local 1112 at Lordstown, "so we can raise our hands and say to GM 'look at what we can do.'"

--- By Nick Carey

(Compiled by Nikhil Kumar and Pradip Kakoti in Bengaluru)

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