

The Weekly Courier

Arev

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Week 29

Editorial – the ISK will not float again, ever

Prequin, the data provider, has interviewed over 150 hedge fund managers that manage \$380 bn. of assets. Of these 44% expect to return 5% or less this year. Many believe this will be the worst year for hedge funds since 2008.

This is unsurprising as fund managers in general are struggling to find yield to match the equity yields of the post-crisis era. Interest rates and government bond yields remain at low levels.

Investors have become interested in peripheral issues and yields have been falling all year.

The Weekly Courier believes that in a period like this, investors will become more and more interested in various types of risks that come with higher gearing and carry trades.

If the ISK were a free floating currency, we believe that there would already be a queue of investors to participate in short term carry trades, and that Iceland would – once again – be awash in capital inflows.

Good week

Last week was a good week. The numbers at the retailers were impacted by earlier start of sales this year than last year. Nevertheless, most managed to put in a decent performance and we believe that the spring summer is ending on a positive note as we prepare for autumn and the ensuing winter. The final results 12:6, is decent although we normally would like to see the green above 15.

Áltak had an excellent week as sales grew by 49% on a like for like basis. All departments are performing well as the building industry seems to be sustaining its growth.

We have witnessed the appreciation of the NOK and DKK during the Euro crises and the fall of the NOK last year as the crisis abated. In both cases these movements were divorced from the economic realities within the two countries. During such inflows or outflows the traditional central bank tools such as decreasing or increasing rates or the amount of minimum capital to be held by banks, lose all impact and local stability is compromised.

We believe that ISK will never float again, ever. The Icelandic economy is tiny by any measure. Any imbalance, be it rates, value of the currency or something else, will be a source of massive instability as hunters seek yields by going long or short on the economy.

The country needs to start to invest in productive assets and the pension system needs to start invest outside the country again. This will have to take place under strict central bank supervision as long as the ISK remains the currency.

Have an excellent week

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Interbaltija had a wonderful week with LFL at +17%. The weather remains excellent which will exacerbate sales next week.

Emmessís's sales slipped by 10% again as the weather disappointed. Fortunately, the weather is improving. The disappointing weather has been met with robust marketing activity and we hope to see some improvement as soon as next week.

Officeday Estonia. Estonia has started July on a strong foot. This is the slow season and it is important to maintain momentum.

Officeday Latvia had a good start to the month of July and seems to have put a few disappointing weeks behind. The company is participating in government's tenders again which is important.

Officeday Lithuania has had an excellent start to the month after difficult like for like comparisons have kept the like for like growth in check. LFL for the first two weeks was +30%. The catalogue is being prepared and will be launched at the same time as last year.

Next Reykjavik (Kringlan). The past week has seen rather disappointing sales at the Kringlan store with -17% LFL. This is partly due to the fact that there was not as much to discount this Summer sale owing to strong in-season sales. This mean a much stronger margin of course as full price sales are up strongly.

Last week (s) in €000	Sales 2013	Sales 2014	Change (%)
Áltak	101	118	17%
Emmessis	136	122	-10%
Interbaltija	179	210	17%
Officeday (weeks 27-28)	688	820	19%
Estonia	126	127	1%
Latvia	213	239	12%
Lithuania	349	454	30%
Next			
Kringlan (Reykjavik)	83	71	-15%
Akropolis (Vilnius)	64	53	-17%
Spice (Riga)	58	48	-17%
Domina (Riga)	17	20	16%
Kristiine (Tallinn)	40	32	-18%
Panorama (Vilnius)	24	24	1%
Akropolis (Kaunas)	26	26	1%
Alfa (Riga)	38	42	10%
Lounakeskus (Tartu)	24	30	23%
Tvedtsentret (Norway)	53	22	-58%
Indiska	16	19	25%
Duchamp - full price	87	95	9%

Score 12 : 6

Next Riga (Domina) had another strong week of sales and managed to surprise on the upside with +16% LFL. The week started one week earlier this year so this is an excellent result.

Retail news from around the world

Jimmy Choo have launched a virtual showroom that allows customers to view and pre- order their Autumn/Winter 2014 collection before it is available in stores.

© Amazon have started to offer a two-day delivery service to their prime customers in the UK for products stored outside of the UK in the EU. The service will incur no extra charge.

Next Tallinn (Kristiine) Kristiine had -18% LFL this week which is not surprising as the Summer sale started a week earlier last year.

Next Panorama (Vilnius) summer Sale continued strongly and the store surprised by being ahead by +1%. Ample merchandise is a key contributor.

Next Akropolis (Kaunas). Just like Panorama, Kaunas managed to edge ahead in the week by +1%.

Next Alfa (Riga) continued the second week of Summer sale in a robust manner as the store grew by +10% above plan.

Next Lounakeskus (Tartu) has continued the sale in an excellent way with a growth of +23%.

Next Tvedtsentret. Sales fell to -58% of Akropolis sales as the Summer sale has not yet started. Norwegians are away for most of July, but start heading home next week. Hence the sale will start next week. It will be extremely exciting how much sales will motivate the Norwegians to shop.

Duchamp. An overall positive week at +9% LFL (MTD +19%). Westfield shopping center had a mixed week but still advanced on last year's sales in all the main categories except jackets which are on lower stock units. Jermyn St benefitted from good sales lifts on shirts and ties and suit sales. The Harvey Nichol Sale finished this weekend with 70 off offers and we benefitted from the increased footfall whilst maintaining our 50 off stance. The website is suffering from size fragmentation in SS14 and we have arranged for some early recalls from the stores to get these back on the site by mid next week.

Indiska is full of new merchandise and had another fantastic week with +25% LFL. The new autumn/winter ranges have received a warm welcome.

Aldi have been rated as the UK's favorite brand for first time, according to the YouGov.

Iceland Foods have completed a £980m debt refinancing deal as they look to expand in the UK and overseas. (Source: Retail Bulletin)

Lidl have announced plans to launch a range of 48 premium French wines in early September 2014, in an attempt to attract the wealthy consumers in London and the South-east of England. The retailer are aiming to sell them for up to a

third less than equivalent wines being sold by the big four grocers. (Source: The Telegraph)

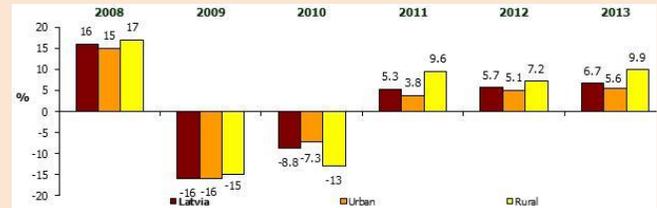
The Co-operative Group have announced plans to sell their pharmacy business for £620m to Bestway Group. The transaction is due to complete in October 2014. (Source: Company)

Mothercare have unveiled a turnaround plan which will include focus on cost reduction and cash generation, rebuilding gross margin, improving service for both online & in-store, and product improvement. (Source: Retail Week)

Latvian household expenditure

Household consumption expenditure at current prices in 2013 reached 91% of the level of 2008, but at constant prices – only 83%. At the same time the GDP per capita in 2013 for the first time was higher than the pre-crisis level (2008). The

fact that household consumption is lagging behind the economic growth is related both to the employment level, which is still lower than that of the pre-crisis period and to the fact that households are cautious as to taking credits, which, in turn, was a very important consumption factor in 2008.



Changes of household consumption expenditure (in per cent over the previous year)

Despite the consumption expenditure growth, its structure has not changed significantly; and also in 2013 the main priorities of consumption was food, housing and transport.