

MARKETS TODAY

Monday, August 05, 2019

MARKETS IN BRIEF

- Global markets started the week with high volatility amid increased pessimism. China began its retaliation, sending the yuan beyond the psychological 7-per-dollar threshold in a move that threatened to unleash a whole new front in the trade hostilities - a currency war. Offshore yuan hit 7.114 per dollar.
- Safe-haven assets jumped. Japanese yen hit 105.79 per dollar, a 7-month high. Spot Gold hit \$1459.88, its highest since May 10, 2013 (6.25-year high). EUR/CHF hit 1.0880, its lowest since June 27, 2017 (more than 2-year low).
- U.S. Treasuries rose while pushing the 10-year yield to 1.7618%, its lowest since Nov. 9, 2016. The yield curve continued its inversion. 3m-10y spread widened to 30 bps, lowest since April 2007.
- Being directly related to China's developments, the Aussie dollar hit \$0.6748, its lowest since January 3. Major events to watch this week: Trade Balance at 4:30 LT and RBA Policy Decision at 7:30 LT tomorrow, RBA Statement and Gov. Lowe speaking on Friday.
- U.S. stocks extended its sell-off on Friday on renewed trade fears as the benchmark S&P 500 index and Nasdaq saw their worst weekly percentage plunges since December.
- Asian equity markets plunged to a 6-month low today.

Dollar-Yuan breaching 7

China on Monday let the yuan tumble beyond the key 7-per-dollar level for the first time in more than a decade, in a sign Beijing might be willing to tolerate further currency weakness in the face of an escalating trade row with the US. The sharp 1.4% drop in the yuan comes days after US President Donald Trump stunned financial markets by vowing to impose 10% tariffs on the remaining \$300bn of Chinese imports from Sept. 1, abruptly breaking a brief month-long ceasefire in the bruising trade war. The People's Bank of China (PBOC) provided the early impetus for yuan bears, setting the daily mid-point of the currency's trading band at 6.9225 per dollar, its weakest level since December 2018.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1126	0.16%
GBP/\$	1.2105	-0.47%
AUD /\$	0.6766	-0.51%
\$/JPY	105.94	0.61%
\$/CAD	1.3236	-0.22%
Gold \$	1457.04	1.13%
WTI \$	54.95	-1.28%
BRENT \$	60.96	-1.50%
AMERICA		
DOW JONES	26485.01	-0.37%
S&P 500	2932.05	-0.73%
NASDAQ	8004.07	-1.32%
EUROPE		
STXE 600	378.15	-2.46%
CAC 40	5359.00	-3.57%
DAX	11872.44	-3.11%
ASIA PACIFIC		
S&P/ASX 200	6640.30	-1.90%
NIKKEI 225	20720.29	-1.74%
CSI 300 (China)	3675.69	-1.91%
MENA		
Saudi Arabia	8557.09	-1.26%
Dubai	2840.36	-0.61%
Qatar	10356.07	-0.40%
BONDS		
U.S. 10-year	1.7667	-0.0785
German Bund 10-yr	-0.5240	-0.0290
AU 10-year	1.0850	0.0000

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... More Chinese retaliation

The Chinese government has asked its state-owned enterprises to suspend imports of US agricultural products, people familiar with the situation said to Bloomberg. China's state-run agricultural firms have now stopped buying American farm goods, and are waiting to see how trade talks progress, the people said. China's commerce ministry didn't respond to a fax seeking comment. President Trump on Thursday proposed adding 10% tariffs on another \$300 billion in imports from Sept. 1, marking an abrupt escalation of the trade war between the world's largest economies.

Yen intervention?

Japan's top currency diplomat on Monday warned investors against significantly pushing up the yen, signaling that Tokyo was ready to intervene in the currency market if excessive yen gains threatened to hurt the export-reliant economy. Yoshiki Takeuchi, Japan's vice FM for international affairs, said Tokyo was in regular contact with overseas authorities to respond to volatile market moves. He made the comments after a meeting of top officials from the MoF Finance, BoJ and the Financial Services Agency, which is held occasionally to discuss market developments.

U.K. might face early elections

Talk of an early general election is intensifying after last week's special election cut the UK government's working majority in Parliament to one. PM Boris Johnson unveiled 1.8bn pounds (\$2.2bn) in additional funding for the National Health Service, delivering on a pledge made during the 2016 Brexit referendum campaign. The money will be used to add hospital beds, wards and cutting-edge equipment, according to a statement from the prime minister's office. Of the total, 850mn pounds will be used at 20 hospitals nationwide.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.24	1.30%
SOLIDERE—B	6.22	-2.66%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.80	-
BLOM BANK	7.30	-
BYBLOS BANK	1.18	-0.84%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

FX & COMMODITIES

China's yuan tumbled more than 1% to 11-year lows on Monday amid mounting fears over a sharp escalation in the US-China trade war, sparking a sell-off in other currencies in the region. Growing anxiety over trade saw investors rush into perceived safe-haven assets, with the Japanese yen rising to a 7-month peak against the dollar. The yuan unexpectedly broke through the closely watched 7 per dollar mark for the first time since the global financial crisis, a level some market players have regarded as major support. It fell to as low as 7.114 per dollar in offshore trade and 7.0424 to the dollar onshore. The move came just days after Trump surprised markets by saying he would impose more tariffs on Chinese imports. The yuan last stood down 1.38% at 7.073 offshore. It was the first time the yuan traded above 7 per dollar since May 2008. The sharp fall came after Beijing vowed on Friday to fight back against Trump's abrupt decision to slap 10% tariffs on the remaining \$300bn in Chinese imports, a move that ended a month-long trade truce. The slumping yuan knocked many currencies in the region.

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FX & COMMODITIES

The Australian dollar, often used as a proxy bet on China, shed 0.51% to \$0.6766, hitting a 7-month low of \$0.6748. The currency wasn't far off its Jan. 3 flash-crash low of \$0.6715.

The US dollar was on the back foot against traditional safe-haven currencies. The dollar fell to as low as 105.79 yen, its weakest since its January flash-crash, and last stood at 105.94 yen, down 0.61%. The 10-year US Treasuries yield fell 8 bps in Asia to 1.76%, on top of last week's 23 bps fall, the biggest weekly fall in seven years. Fed funds futures prices are now pricing in a total of 75 bps by March, with some chance of a 50 bps cut next month. On Friday, the closely-watched US employment data showed non-farm payrolls increased by 164,000 jobs in July, fewer than the prior month, and wages increased modestly.

Emerging market currencies took a deeper hit. The Korean won fell 1%, hitting a 3-year low of 1,218.3 per dollar while the new Taiwan dollar fell more than 0.7% to a 2-month low of 31.627 to dollar. The Mexican peso fell 1% to 19.507 to the dollar while the Indian rupee fell 1.2% to 70.425 per dollar. Domestic woes also added pressure on some currencies. Diplomatic tensions between Japan and Korea weakened the won, the Taiwan dollar softened after China restricted travel to the island and the rupee was rattled by instabilities in Kashmir.

Gold also hit a 6-year high of \$1,459.88 per ounce and last stood up 1.13% at \$1,457.04.

The Swiss franc hit a 2-year high against the euro, fetching 1.0890 franc per euro, having gained 1.4% over the past five sessions. The common currency also rose 0.16% to \$1.1126, extending its recovery from a 2-year low of \$1.1027 touched on Thursday, as US bond yields have plunged, reducing the dollar's yield attraction.

Oil prices fell on Monday amid renewed global economic growth concerns after US President Donald Trump vowed to escalate the trade war with China with more tariffs, which would likely limit fuel demand in the world's two biggest crude consumers. Brent crude futures had dropped 1.5%, to \$60.96 a barrel. US West Texas Intermediate (WTI) crude futures declined 1.28%, to \$54.95 a barrel. Both crude benchmarks fell last week, with Brent down 2.5% and US crude falling 1%.

ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—11:30	Eurozone Sentix Investor Confidence	-6.9	-5.8
USD—17:00	US ISM Non-Manufacturing PMI	55.5	55.1

Tuesday: NZ Jobs Report, AU RBA Policy Decision, German Factory Orders, US Economic Optimism

Wednesday: RBNZ Policy Decision + Press Conference, French Trade Balance, UK Halifax HPI

Thursday: China Trade Balance, ECB Economic Bulletin

Friday: RBA Gov. Lowe speaks, RBA policy meeting statement, China Inflation, UK GDP and Manufacturing Production, Canada Jobs Report, US PPI

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CURRENCIES	LAST	1D	YTD
DXY	97.983	-0.09%	1.88%
EUR/\$	1.1126	0.16%	-2.97%
GBP/\$	1.2105	-0.47%	-5.09%
AUD /\$	0.6766	-0.51%	-4.01%
NZD/\$	0.6512	-0.37%	-3.08%
\$/JPY	105.94	0.61%	3.54%
\$/CAD	1.3236	-0.22%	3.03%
\$/CHF	0.9782	0.43%	0.40%
\$/SEK	9.6435	-0.03%	-8.19%
\$/NOK	8.9408	-0.28%	-3.35%
\$/DKK	6.7113	0.15%	-2.98%
\$/TRY	5.5591	-0.01%	-4.85%
EUR/GBP	0.9191	-0.60%	-2.19%
EUR/JPY	117.87	0.44%	6.75%
EUR/CHF	1.0883	0.27%	3.42%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1457.04	1.13%	13.61%
Silver Spot \$/Oz	16.51	1.88%	6.54%
Platinum Spot \$/Oz	855.68	1.28%	7.54%
Palladium Spot \$/Oz	1419.67	0.74%	12.51%
COPPER \$/lb	255.65	-0.58%	-3.33%
WTI \$/bbl	54.95	-1.28%	21.01%
BRENT \$/bbl	60.96	-1.50%	13.31%

EQUITIES & BONDS

Asian shares suffered their steepest daily drop in 10 months on Monday, as Sino-US trade friction sent the yuan slumping to a more than decade trough and stampeded investors into safe harbors including the yen, bonds and gold. The panic is likely to spread to Europe and Wall Street with futures signaling sharp losses in their benchmark indices. Markets have been badly spooked since US President Donald Trump abruptly declared he would slap 10% tariffs on \$300bn in Chinese imports, ending a month-long trade truce. China vowed on Friday to fight back. Asian share markets were a sea of red with Japan's Nikkei shedding 1.7% to the lowest since early June. It was the sharpest daily drop since March and led Japanese officials to call a special meeting to discuss market turmoil. Australian shares slipped about 2% to spend their fourth straight session in the red, and South Korea's KOSPI tumbled 2.6% to hit its lowest since November 2016. MSCI's broadest index of Asia-Pacific shares outside Japan sank 2.5% to depths not seen since late January. That marked the biggest one-day percentage loss since early October. In China, the blue-chip index .CSI300 fell 1% while the troubled Hong Kong market .HSI hit a seven-month trough.

US stocks extended its sell-off on Friday on renewed trade fears as the benchmark S&P 500 index and Nasdaq saw their worst weekly percentage plunges since December, when investors were spooked by the prospect of a looming recession. The blue chip Dow and the S&P 500 hit their lowest levels since late June with S&P 500 and the Nasdaq registering their fifth consecutive days of losses. US 10-year Treasury yields saw their steepest weekly decline in over

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EQUITIES & BONDS

seven years. The sell-off wrapped up a tumultuous week, which saw the US Fed cut interest rates for the first time since 2008 and a renewal of trade war fears following a tweet by US President Donald Trump announcing plans to impose additional tariffs on \$300bn of Chinese imports on Sept 1. A report from Labor Department on Friday showed that nonfarm payrolls increased by 164,000 jobs last month, in line with economists' expectations. Of the 11 major sectors in the S&P 500, eight closed in the red. Technology companies, which get a sizeable portion of their revenue from China, were the hardest hit, falling 1.7%. This sector was weighed by iPhone maker Apple Inc and chipmakers. The Philadelphia Semiconductor index slipped 1.6%, while shares of Apple fell 2.1%. Q2 earnings season passed its halfway mark, with 380 of the companies in the S&P 500 having reported. Of those, 73.9% have beaten analyst expectations. New tariff threats dragged oil prices lower for the week, as Exxon Mobil and Chevron reported quarterly results. Exxon topped analyst expectations but fell year-on-year, while Chevron's earnings rose 26%, in line with forecasts. Sprint Corp shares dropped 5.8% even after reporting fewer-than-expected phone subscriber losses in the quarter. Restaurant Brands International jumped 6.1%, after quarterly profits topped expectations.

In the MENA region, the Saudi index declined on Sunday, weighed down by banking shares, in line with major markets on Friday after the US Fed cut interest rates, which was followed by rate cuts by most Gulf central banks. The Saudi market was also taking cues from a fall in US markets on Friday. Saudi banking stocks were also hit by news that Saudi Binladin Group (SBG) was seeking a financial adviser for restructuring of its debt which could range between \$20-\$30bn. Goldman Sachs said in a report to clients it was "getting questions on the exposure of Saudi banks to Saudi Binladin Group". The Tadawul All-Share index closed down 1.3% on Sunday.

COMPANY NEWS HEADLINES

- Berkshire Hathaway is sitting on a monster pile of cash, all \$122bn of it. In a further sign that Warren Buffett doesn't see much attraction in the market's current valuations, Berkshire sold \$1bn more worth of stocks than it bought last quarter, its biggest net selling since the end of 2017. Soft consumer demand hit units from home furnishing businesses to the BNSF rail operations.
- US activist investor Elliott urged German classifieds group Scout24 on Monday to sell its car listings division and ramp up a share buyback programme to boost returns to investors.
- Weaker Q2 refining and chemicals profits offset surging US shale production at US oil majors Exxon Mobil Corp and Chevron Corp , the two reported on Friday.
- The Apple Inc credit card being launched with Goldman Sachs Group Inc will not allow the purchase of cryptocurrencies with the card, according to a customer agreement posted to Goldman's website on Friday.
- Facebook Inc started adding its name to some screens on its Instagram photo-sharing platform this week, one of the first links it has given users to its ownership of the popular platform.
- Viacom and CBS have worked out a management structure in which Viacom Chief Executive Officer Robert Bakish would lead the combined company if the two entities reach a deal to merge (Reuters sources)
- The US FTC said on Friday it was suing to stop Evonik Industries AG's proposed purchase of rival hydrogen peroxide maker PeroxyChem Holding Company, citing concerns that the deal would lead to higher prices.
- Roche Holding said its Tecentriq drug combined with platinum-based chemotherapy reduced the risk of the disease worsening or death in patients with advanced bladder cancer, the Swiss pharma company said on Monday.
- Consumer lender Credible Labs Inc said on Monday that it entered a definitive agreement to be bought out by a unit of Fox Corp, which it says values it at about A\$585mn (\$397mn).

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AMERICA	LAST	1D	YTD
DOW JONES	26485.01	-0.37%	13.54%
S&P 500	2932.05	-0.73%	16.96%
NASDAQ	8004.07	-1.32%	20.63%
S&P/TSX	16271.66	-0.64%	13.61%
EUROPE	LAST	1D	YTD
STXE 600	378.15	-2.46%	11.99%
FTSE 100	7407.06	-2.34%	10.09%
CAC 40	5359.00	-3.57%	13.28%
DAX	11872.44	-3.11%	12.44%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6640.30	-1.90%	17.60%
NIKKEI 225	20720.29	-1.74%	3.52%
TOPIX	1505.88	-1.80%	0.79%
CSI 300 (China)	3675.69	-1.91%	22.09%
MENA	LAST	1D	YTD
Saudi Arabia	8557.09	-1.26%	9.33%
Abu Dhabi	5179.24	-0.01%	5.37%
Dubai	2840.36	-0.61%	12.28%
Qatar	10356.07	-0.40%	0.55%
10-YEAR BONDS	LAST	1D	YTD
U.S.	1.7667	-0.0785	-0.9175
Germany	-0.5240	-0.0290	-0.7660
U.K.	0.5050	-0.0450	-0.7720
Australia	1.0850	0.0000	-1.2330

TOP SELECTED NEWS

China will deepen regional financial reforms, lower funding costs

(Reuters) China will deepen its regional financial reforms, using various policy tools to lower corporate funding costs, especially for small firms, Chen Yulu, a vice governor of the People's Bank of China, said on Monday. Chinese policymakers have pledged to maintain support for the slowing economy and prod banks to lend more to small and private firms that are vital for growth and employment. "We will use a variety of tools and explore effective ways to reduce financing costs of enterprises, especially for small, private firms," Chen told reporters at a briefing. China has been experimenting with several regional reform schemes, including one on supporting small firms in Zhejiang and Henan, a scheme on green financing in provinces including Zhejiang, Guangdong and Guizhou, the central bank said.

China July services sector grows at slowest pace in five months: PMI

(Reuters) China's services sector expanded at the slowest pace in five months in July despite a sharp upturn of new export orders, a private survey showed on Monday. The Caixin/Markit services purchasing managers' index (PMI) slipped to 51.6, the lowest reading since February, from June's 52.0. The 50-point mark divides growth from



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TOP SELECTED NEWS

contraction, and the overall service index has shown expansion every month since it was started in 2005. In July, a sub-index for new export orders placed with Chinese services firms swung back to expansion at a three-month high of 54.0, compared with 49.5 in the previous month. Caixin/Markit said survey respondents commented that strong demand across international markets supported the latest upturn in new work from abroad. Overall new business remained largely stable, though the sub-index dipped slightly to 53.2 from 53.4 in June, suggesting a string of government support measures for the economy over the last year were propping up domestic demand. The survey showed business confidence for the year ahead remained unchanged from June's level, though some companies expect that relatively weak market conditions in the coming months could weigh on demand.

HSBC CEO Flint exits in surprise move after just 18 months

(Bloomberg) John Flint's tenure running HSBC Holdings Plc has come to an abrupt end, with the bank announcing early Monday in Asia that the chief executive officer was stepping down. The board believed a change was needed to help the bank, which has seen its Hong Kong-listed shares fall about 15% in the past year, meet the challenges it faces in an increasingly complex environment, Chairman Mark Tucker said in a statement. Some HSBC executives in Asia expressed surprise at the move, saying there had been no indication that a change was afoot. They asked not to be identified as they aren't authorized to comment on the issue.

Natixis, Credit Agricole lead French banks roiled by rally debt

(Bloomberg) Credit Agricole SA and Natixis SA are among French lenders nursing losses on loans made to Rallye SA and other parent companies of retailing giant Casino Guichard-Perrachon SA, which are creaking under more than 3bn euros (\$3.3bn) of debt. Natixis made a provision for credit losses of 110mn euros in Q2 because of its loans to Rallye, which filed for creditor protection in May, according to a person familiar with the matter. Credit Agricole added 69mn euros to cover soured debts at the division that houses corporate and investment banking mostly because of the exposure to the same company, according to a separate person. The people asked not to be named because the matter is private. Representatives for the lenders declined to comment.

Nissan wants Renault to reduce stake to revive Renault-FCA deal talks: WSJ

(Reuters) Carmakers Nissan Motor Co and Renault SA are trying to reach a deal to reshape their global alliance, in hopes of reviving Renault's merger talks with Italy's Fiat Chrysler Automobiles NV, the Wall Street Journal reported on Friday, citing emails and people briefed on the talks. Nissan wants Renault to reduce its 43.4% stake in the Japanese auto company, according to emails reviewed by WSJ.

JPMorgan in pole position to lead WeWork IPO after debt offering—sources

(Reuters) WeWork owner The We Company has tapped JPMorgan Chase & Co to head an upcoming debt offering, putting the bank in pole position to lead a planned IPO later this year, people familiar with the matter said. WeWork would like work on the debt offering to begin as early as next week, although this is subject to change as there are regulatory hurdles to be cleared, the sources said. WeWork has not officially hired banks for the IPO but the expectation among people involved in the process is that any lender's role in the debt offering will have a direct impact on its role in the IPO, said the sources, who requested anonymity because the details are private.

Thiel-backed German bank woos America with free accounts, nudges

(Bloomberg) The German mobile bank backed by Peter Thiel is pressing ahead with its US expansion, betting it can grab share from established lenders and credit-card providers with free accounts, fewer fees and phone alerts that nudge them toward better financial choices. "We have more than 110,000 customers on the wait list in the US," Valentin Stalf, the CEO and co-founder of Berlin-based N26, said in an interview in Salzburg, Austria. "Banking in the US is much more un-transparent than in Europe, as you often have minimum fees, minimum balances and so on."

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