

MARKETS TODAY

Friday, August 23, 2019

MARKETS IN BRIEF

- Global markets will be focusing today on Jackson Hole Symposium, and mainly on U.S. Fed Chair Powell. The big question is: Will he reaffirm to the markets that the Fed is not in an easing cycle?
- U.S. dollar firmed up before Powell's speech at 17:00 LT.
- However, investors remained cautious amid ongoing world conflicts: US-China trade war dragging on, and political tumult in Hong Kong, Italy and Britain.
- Asian stocks and U.S. futures struggled to take direction. U.S. stocks closed mixed yesterday.
- European government yields edged up on hopes that a snap election in Italy could be avoided.
- Euro traders will be watching the trade talks at G7 summit between Trump and his peers.
- British pound retreated as Brexit uncertainty weighed heavily on market sentiment.
- NZ dollar jumped after RBNZ's comments signaled bank's reluctance in cutting interest rates further.
- Oil prices traded in a certain range amid mixed factors.

Watching Powell

When Fed chair Jerome Powell speaks in Jackson Hole, Wyoming, on Friday, traders will comb through his remarks for clues on whether the US central bank will deliver more rate cuts this year. For all his reputation as the most plain-spoken person to run the US c. bank in decades, Powell may be reluctant in his remarks to fellow central bankers at this year's Kansas City Fed economic symposium to say much about where rates will go. The reason: he may not actually know, and does not want to get locked in. Fellow Fed policymakers, even those who supported July's rate cut, are signaling reluctance to do more, with Phil Fed chief Harker calling for a wait-and-see approach and Dallas Fed chief Kaplan saying he is "open minded" but would "like to avoid having to take further action."

| FX & COMMODITIES | LAST | 1D |
|-------------------|----------|--------|
| EUR/\$ | 1.1068 | -0.11% |
| GBP/\$ | 1.2203 | -0.39% |
| AUD /\$ | 0.6752 | -0.07% |
| \$/JPY | 106.65 | -0.20% |
| \$/CAD | 1.3320 | -0.13% |
| Gold \$ | 1495.43 | -0.18% |
| WTI \$ | 55.39 | 0.07% |
| BRENT \$ | 60.04 | 0.20% |
| AMERICA | | |
| DOW JONES | 26252.24 | 0.19% |
| S&P 500 | 2922.95 | -0.05% |
| NASDAQ | 7991.39 | -0.36% |
| EUROPE | | |
| STXE 600 | 374.29 | -0.40% |
| CAC 40 | 5388.25 | -0.87% |
| DAX | 11747.04 | -0.47% |
| ASIA PACIFIC | | |
| S&P/ASX 200 | 6523.13 | 0.33% |
| NIKKEI 225 | 20710.91 | 0.40% |
| CSI 300 (China) | 3820.86 | 0.72% |
| MENA | | |
| Saudi Arabia | 8445.66 | -0.74% |
| Dubai | 2768.85 | -0.79% |
| Qatar | 9918.60 | 0.42% |
| BONDS | | |
| U.S. 10-year | 1.6591 | 0.0460 |
| German Bund 10-yr | -0.6130 | 0.0310 |
| AU 10-year | 0.9730 | 0.0620 |

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... Heavy agenda

BOE Governor Mark Carney will deliver the luncheon speech at Jackson Hole. The ECB's Mario Draghi and BOJ Governor Haruhiko Kuroda both skipped the event. Other attendees include Trump's Fed pick, Chris Waller, as well as Hong Kong's Norman Chan and former Fed Chair Janet Yellen. At the G-7, Trump plans to meet Macron, Angela Merkel, Narendra Modi, Justin Trudeau and Shinzo Abe.

Italy given a political grace period

Italy's center-left Democrats have until Tuesday to form a coalition with the anti-establishment Five Star Movement, after President Sergio Mattarella said he was giving parties more time to try and put together a new parliamentary majority. Mattarella holds the power to either appoint the next prime minister or call early elections, the two options to lift Italy out of its current political crisis. Giuseppe Conte resigned as prime minister earlier this week after Matteo Salvini, head of the anti-migrant League party, withdrew support for the government in a bid to consolidate power.

U.S. and Japan failing to agree on trade

Top negotiators for Japan and the US on Thursday failed to reach an agreement on a 3-way trade deal and decided to extend talks for another day in a last-ditch effort to bring tangibles to a weekend bilateral summit. After marathon 4-hour talks with US Trade Rep. Robert Lighthizer on Thursday, Japanese EM Toshimitsu Motegi told reporters that the two countries were "getting closer to reach a conclusion". But he added that negotiations were taking time because they involved details covering a wide range of areas that directly affect both country's national interest.

| BEIRUT S.E. | LAST | 1D |
|-----------------|-------|-------|
| SOLIDERE—A | 6.08 | 0.66% |
| SOLIDERE—B | 6.07 | 1.34% |
| BANK OF BEIRUT | 18.80 | - |
| BANK AUDI SAL | 3.79 | - |
| BLOM BANK | 7.30 | - |
| BYBLOS BANK | 1.15 | - |
| BLC BANK SAL | 0.93 | - |
| BANQUE BEMO SAL | 1.50 | - |

FX & COMMODITIES

The US dollar held steady in Asia on Friday on expectations US Fed Chairman Jerome Powell would stick with his message that the central bank has not entered a prolonged monetary easing cycle. Powell gives a highly-awaited speech later Friday at a meeting of central bankers in Jackson Hole, but doubts have emerged after two Fed officials said they saw no reason to cut interest rates again without new signs of economic weakness. Currency markets have in recent months been driven by global central banks' shift to much more accommodative policy settings as economic demand slows and trade disputes intensify. Expectations that the Fed will cut rates at its next meeting in September are still very high, according to interest rate futures, but the currency market is likely to react if the tone of Powell's comments do not match these dovish expectations. The dollar was higher at 106.65 yen on Friday. The dollar fell 0.2% versus the yen on Thursday following slightly weak data on the US manufacturing sector. For the week, the greenback was on course for a 0.1% gain versus the yen. The dollar index against a basket of six major currencies was higher at 98.353. In the US, Philadelphia Fed Bank President Patrick Harker and Kansas City Fed Bank President Esther

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FX & COMMODITIES

George both said on Thursday they saw no immediate need to cut rates. Powell is likely to acknowledge later Friday that fallout from the US-China trade war may worsen a global economic slowdown and ultimately make more US rate cuts necessary. But he is expected also to try to ensure he is not seen as bowing before repeated attacks from President Donald Trump for not easing policy further. Interest rate futures traders are pricing in a 91% probability of a rate cut at the Fed's September meeting, according to the CME Group's FedWatch tool. In July the Fed cut rates for the first time in a decade to 2.00%-2.25%. The dollar edged to a 3-week high of 0.9846 Swiss franc on Friday. The greenback was on course for a 0.7% gain against the safe-haven Swiss franc this week in a tentative sign of an improvement in risk sentiment.

The New Zealand dollar jumped after the Pacific nation's central bank chief said he was "pleased" with where interest rates were at, hosing down expectations of more immediate rate cuts after this month's aggressive easing. The NZ dollar rose 0.4% to \$0.6391 and 0.4% to 68.06 yen. Reserve Bank of New Zealand Governor Adrian Orr told Bloomberg TV he can afford to wait on monetary policy after stunning investors earlier this month with a sharp 50-basis-point rate cut.

The British pound was still on course for a second weekly gain, but uncertainty remains high over how Britain will complete its divorce from the EU. The pound fell 0.39% on Friday to \$1.2203.

The euro held steady at \$1.1068, on course for its second weekly decline against the greenback. Transatlantic rifts are set to feature prominently when Trump arrives at the G7 summit in France to discuss differences over trade, Iran and climate change. If Trump slaps tariffs on EU cars and car part imports, which he says pose a national security threat, it would pose a new risk to Europe's economic outlook.

Oil prices clawed back the previous day's losses on Friday, with Brent nudging above \$60 a barrel, as tighter supplies from key producers offset slowing demand growth and investors await clues on the US Fed's monetary policy. Brent crude rose 0.20%, to \$60.04 a barrel, while US crude futures were at \$55.39 a barrel, up 0.07%. Both contracts were on track for a second week of gains. A speech by Fed Chair Jerome Powell later on Friday at a meeting of global central bankers in Jackson Hole, Wyoming, is expected to provide clues on whether the US central bank will cut interest rates for a second time this year to boost the world's largest economy.

ECONOMIC CALENDAR

| CURRENCY - TIME (LT) | EVENT | FCAST | PRIOR |
|----------------------|----------------------------|--------|--------|
| CAD—15:30 | Canada Core Retail Sales | -0.10% | -0.30% |
| CAD—15:30 | Canada Retail Sales | -0.30% | -0.10% |
| USD—17:00 | US New Home Sales | 645k | 646k |
| USD—17:00 | US Fed Chair Powell speaks | | |

Next Week: G7 Meetings, US Durable Goods, US CB Consumer Confidence, AU Private CAPEX, German CPI, US GDP, AU Building Approvals, Eurozone Inflation, US Personal Spending, Canada GDP, US Consumer Sentiment

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| CURRENCIES | LAST | 1D | YTD |
|----------------------|---------|--------|--------|
| DXY | 98.353 | 0.19% | 2.27% |
| EUR/\$ | 1.1068 | -0.11% | -3.48% |
| GBP/\$ | 1.2203 | -0.39% | -4.32% |
| AUD /\$ | 0.6752 | -0.07% | -4.21% |
| NZD/\$ | 0.6379 | 0.19% | -5.06% |
| \$/JPY | 106.65 | -0.20% | 2.85% |
| \$/CAD | 1.3320 | -0.13% | 2.38% |
| \$/CHF | 0.9863 | -0.26% | -0.43% |
| \$/SEK | 9.6861 | -0.10% | -8.60% |
| \$/NOK | 8.9852 | -0.05% | -3.83% |
| \$/DKK | 6.7358 | -0.10% | -3.33% |
| \$/TRY | 5.7742 | -0.10% | -8.40% |
| EUR/GBP | 0.9071 | -0.31% | -0.90% |
| EUR/JPY | 118.04 | -0.08% | 6.60% |
| EUR/CHF | 1.0917 | -0.15% | 3.10% |
| COMMODITIES | LAST | 1D | YTD |
| Gold Spot \$/Oz | 1495.43 | -0.18% | 16.60% |
| Silver Spot \$/Oz | 17.03 | -0.08% | 9.90% |
| Platinum Spot \$/Oz | 859.45 | 0.14% | 8.02% |
| Palladium Spot \$/Oz | 1486.78 | -0.10% | 17.83% |
| COPPER \$/lb | 257.90 | 0.53% | -2.53% |
| WTI \$/bbl | 55.39 | 0.07% | 21.98% |
| BRENT \$/bbl | 60.04 | 0.20% | 11.56% |

EQUITIES & BONDS

Most euro zone bond yields edged up on Friday in quiet trade ahead of a speech by US Fed chief Jerome Powell, with hopes that snap elections in Italy can be avoided lifting sentiment toward that country's bonds. President Sergio Mattarella on Thursday gave Italy's bickering parties five days to clinch a deal to resolve a political crisis and avoid an election. Hopes of a deal between the anti-establishment 5-Star Movement, which has governed since last year with the far-right League, and the center-left opposition Democratic Party (PD) have risen over the past week. The PD on Thursday set tough conditions for an accord, increasing the chance of an autumn election. However, there is negotiating room, and Mattarella has now given the parties some time.

Asian shares struggled to make headway on Friday as uncertainty over how much further the US Fed would cut interest rates added to investors' worries over slowing global growth. With the US-China trade war dragging on, and political tumult in Hong Kong, Italy and Britain adding to the tense backdrop, investors were keenly awaiting Fed Chair Jerome Powell's speech at a gathering of central bankers in Jackson Hole, Wyoming, later in the day (1400 GMT). MSCI's broadest index of Asia-Pacific shares outside Japan edged 0.3% higher and was up 1.0% for the week, on track to break a four-week losing streak. Japan's benchmark Nikkei advanced 0.4% and Australian stocks added 0.3%. The Shanghai Composite and the blue-chip CSI300 were up 0.3% and 0.72%, respectively, while Hong Kong's Hang Seng gained 0.5%.

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EQUITIES & BONDS

In the US, the benchmark S&P 500 ended little changed on Thursday as a fall in US jobless claims offset data showing a contraction in US manufacturing activity while investors awaited Fed Chair Jerome Powell's speech on Friday for clues on the central bank's monetary policy. IHS Markit's Flash Purchasing Managers' Index showed manufacturing activity contracting in August for the first time in nearly a decade. The reading prompted concern among some investors that economic weakness abroad and an escalating trade war with China could drag down the US economy. Following the data release, the yield curve between two-year and 10-year Treasury notes briefly inverted. For much of the session, the S&P 500 oscillated between gains and losses. Several market strategists said investors were pausing ahead of Fed Chair Powell's speech on Friday at an annual gathering of central bankers in Jackson Hole, Wyoming, which is expected to yield some clues on whether the Fed will cut interest rates further. The benchmark index dipped lower in intraday trade after Philadelphia Fed President Patrick Harker and Kansas City Fed President Esther George hinted at less dovish stances, saying the US economy does not need more stimulus at this point. Shares of Nordstrom Inc jumped 15.9%, the biggest percentage gain on the S&P 500, after the department store's quarterly profit beat estimates, joining Target Corp and Lowe's Cos Inc in delivering upbeat retail numbers. The Dow received a boost from Boeing Co shares, which rose 4.2% as Reuters reported the planemaker is looking to increase production of its grounded 737 MAX jets as early as October, suggesting the aircraft's return to service may be on track for Q4.

Most Gulf stock markets were mixed yesterday. The Saudi stocks were dragged lower by declining financial stocks on Thursday amid uncertainty over Fed policy following the release of minutes from the Fed's July meeting. Currencies of Saudi Arabia, the UAE and Qatar are pegged to the US dollar and they follow the Fed on interest rate moves.

COMPANY NEWS HEADLINES

- Gap Inc posted quarterly same-store sales that fell short of analysts' estimates on Thursday, as Old Navy suffered its worse comparable sales figures in three years ahead of a planned spin-off of the brand.
- Salesforce.com Inc reported quarterly revenue above Wall Street estimates on Thursday, as more customers signed up for its cloud software.
- Tesla Inc has agreed to buy batteries from South Korea's LG Chem Ltd for electric vehicles manufactured in China, Bloomberg reported on Friday citing people familiar with the matter.
- HP Inc said on Thursday Chief Executive Officer Dion Weisler is stepping down after nearly four years in the role, and forecast Q4 profit below Wall Street estimates, sending its shares down 6% in late trade.
- Mexican restaurant operator CMR said on Thursday it has agreed to buy local firm Grupo Dasi and its associated businesses in a cash and stock deal, without disclosing the price.
- US toolmaker Stanley Black & Decker Inc has acquired a stake in IguanaFix, an Argentine online company that connects homeowners with service providers, the companies told Reuters.
- SQM, the world's No. 2 producer of lithium, saw its profits plunge along with lithium prices in Q2, even as the Chile-based miner said it had sold more of the ultralight battery metal.
- Brazilian wireless carrier TIM Participações SA said on Thursday it has signed an agreement with local telecoms regulator, Anatel, in which it committed to invest 627 million reais (\$154.3 million) over the next three years in its services and infrastructure.

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|-----------------|----------|--------|---------|
| DOW JONES | 26252.24 | 0.19% | 12.54% |
| S&P 500 | 2922.95 | -0.05% | 16.60% |
| NASDAQ | 7991.39 | -0.36% | 20.44% |
| S&P/TSX | 16253.46 | -0.34% | 13.48% |
| EUROPE | LAST | 1D | YTD |
| STXE 600 | 374.29 | -0.40% | 10.85% |
| FTSE 100 | 7128.18 | -1.05% | 5.95% |
| CAC 40 | 5388.25 | -0.87% | 13.90% |
| DAX | 11747.04 | -0.47% | 11.25% |
| ASIA PACIFIC | LAST | 1D | YTD |
| S&P/ASX 200 | 6523.13 | 0.33% | 15.53% |
| NIKKEI 225 | 20710.91 | 0.40% | 3.48% |
| TOPIX | 1502.25 | 0.28% | 0.55% |
| CSI 300 (China) | 3820.86 | 0.72% | 26.91% |
| MENA | LAST | 1D | YTD |
| Saudi Arabia | 8445.66 | -0.74% | 7.91% |
| Abu Dhabi | 5038.99 | -0.03% | 2.52% |
| Dubai | 2768.85 | -0.79% | 9.45% |
| Qatar | 9918.60 | 0.42% | -3.69% |
| 10-YEAR BONDS | LAST | 1D | YTD |
| U.S. | 1.6591 | 0.0460 | -1.0251 |
| Germany | -0.6130 | 0.0310 | -0.8550 |
| U.K. | 0.5610 | 0.0440 | -0.7160 |
| Australia | 0.9730 | 0.0620 | -1.3450 |

TOP SELECTED NEWS

China eases restrictions on gold imports: sources

(Reuters) China has partially lifted restrictions on imports of gold, bullion industry sources said, loosening curbs that had stopped an estimated 300-500 tonnes of the metal worth \$15-25 billion at current prices from entering the country since May. China's central bank had for several months curtailed or not granted import quotas to commercial banks responsible for most of the gold that enters the country, Reuters reported last week. Sources said those measures had possibly been designed to reduce capital outflows and bolster the yuan, which has slumped to 11-year lows against the dollar as a trade dispute with the United States batters China's economy.

Goldman Sachs left out of U.A.E. refinery deal amid 1MDB fallout

(Bloomberg) Goldman Sachs is getting the cold shoulder in Abu Dhabi. Abu Dhabi National Oil Co., which hired Goldman Sachs last year for the first tranche of its \$20bn refining unit sale, has not invited the investment bank for the second round of the deal due to the scandal around the Malaysian investment fund 1MDB, according to three people familiar with the matter. Goldman Sachs has struggled to win business in Abu Dhabi since Mubadala Investment, the emirate's \$225bn wealth fund, suspended activities with the bank earlier this year. Mubadala blamed



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TOP SELECTED NEWS

ongoing litigation over the 1MDB debacle, which left it with billions of dollars in losses. Mubadala is the only entity to publicly blacklist Goldman, yet the US bank is also missing out on business with a number of lenders and state bodies in the UAE.

SocGen said to weigh options for \$167 billion asset manager

(Bloomberg) Societe Generale SA is considering options for its Lyxor asset-management business overseeing about 151bn euros (\$167bn) as the company accelerates asset disposals, according to people familiar with the matter. The French bank is weighing alternatives for the unit, including a sale or merger, amid heavy competition in the asset-management industry, the people said, asking not to be identified because the deliberations are private. A process may kick off in Q4, the people said. No final decisions have been made and France's third-largest bank may still decide to retain the business, they said. A representative for SocGen declined to comment.

Deutsche Bank hits back at US think tank over capital buffers

(Bloomberg) Deutsche Bank AG on Thursday hit back at a Washington think tank that had criticized the German lender for letting its capital buffer shrink to help pay for its restructuring. Chief Financial Officer James von Moltke, in a letter posted on Deutsche Bank's website, said an opinion piece by Better Markets co-founder Dennis Kelleher and his colleague Joseph Cisewski in the American Banker was a "gross misrepresentation" of the lender's restructuring plan. In their piece, Kelleher and Cisewski argued that "reducing capital to increase short-term returns for shareholders is grossly irresponsible." They argued the move jeopardizes the resilience of the lender, at a time when it struggles with high funding costs and headwinds from lower interest rates, and could ultimately leave US taxpayers on the hook.

Walmart, Tesla look to address issues surrounding solar systems

(Reuters) Walmart Inc and Tesla Inc are looking to address all issues surrounding the solar installations at Walmart stores, the companies said late on Thursday, two days after the retailer sued the electric carmaker for "widespread negligence" that led to repeated fires at the installations. The companies also said they were looking to "re-energizing Tesla solar installations at Walmart stores, once all parties are certain that all concerns have been addressed." "Above all else, both companies want each and every system to operate reliably, efficiently, and safely," the companies said in a brief joint statement. In the lawsuit, Walmart accused Tesla of having untrained workers putting up shoddy installations and showing "utter incompetence or callousness, or both," and asked for the removal of solar panels from more than 240 of Walmart's US stores.

Hasbro to buy studio Entertainment One for \$4 billion

(Reuters) US toy maker Hasbro Inc will buy Entertainment One Ltd for about \$4bn in cash, adding the independent studio with preschool brands such as Peppa Pig to the US company known for Nerf and Power Rangers, the companies said on Thursday. Hasbro will pay 5.60 pounds per share and will finance the deal with debt and \$1.0-1.25bn in cash from equity financing, the companies said.

Rosneft becomes top Venezuelan oil trader, helping offset US pressure

(Reuters) Russian state oil major Rosneft has become the main trader of Venezuelan crude, shipping oil to buyers in China and India and helping Caracas offset the loss of traditional dealers who are avoiding it for fear of breaching US sanctions. Trading sources and Refinitiv Eikon data showed Rosneft became the biggest buyer of Venezuelan crude in July and the first half of August. It took 40% of state oil company PDVSA's exports in July and 66% so far in August, according to the firm's export programs and the Refinitiv Eikon data, double the purchases before sanctions.

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