

# MARKETS TODAY

Tuesday, August 27, 2019

## MARKETS IN BRIEF

- Safe-haven assets, like Japanese yen and Spot Gold, advanced as investors remained skeptical about the possibility of progress in U.S.-China trade talks.
- China's onshore yuan nudged down to a fresh 11-year low of 7.1695 per dollar.
- U.S. dollar was pressured down by falling U.S. Treasury yields.
- Australian and NZ dollar traded down feeling the heat of market pessimism. The Aussie got more pressure from RBA official's comments that raised expectations of potential rate cuts.
- British pound continued to trade in a certain range as investors cautiously monitored PM Johnson's negotiations with the EU.
- Asian stocks had a good session today, following Wall Street's jump yesterday. Traders reacted positively to Trump's calming comments on Monday.
- Oil prices also benefited from trade optimism.
- Italian government bonds rallied across the board on Tuesday with yields on benchmark 10-year debt falling to their lowest levels in nearly three years as hopes of a new government buoyed investor sentiment.

## Germany closer to recession

A collapse in exports pushed Europe's largest economy to the brink of recession in Q2. In a sign that an increasingly hostile trade war between the US and China is at least partially to blame for Germany's deepening manufacturing malaise, shipments abroad declined 1.3%, causing a contraction in total economic output -- the second over the past year. The Bundesbank predicts GDP could decline again in Q3, and sliding business confidence has been piling pressure to Chancellor Angela Merkel to provide fiscal stimulus. Germany's export-oriented economy has sustained significant collateral damage from a US-inflicted trade conflict that continues to escalate and could hit closer to home before long.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1113	0.10%
GBP/\$	1.2246	0.24%
AUD /\$	0.6752	-0.34%
\$/JPY	105.65	0.44%
\$/CAD	1.3234	0.15%
Gold \$	1534.21	0.45%
WTI \$	53.94	0.56%
BRENT \$	58.89	0.32%
AMERICA		
DOW JONES	25898.83	1.05%
S&P 500	2878.38	1.10%
NASDAQ	7853.74	1.32%
EUROPE		
STXE 600	371.28	-0.02%
CAC 40	5351.02	0.45%
DAX	11658.04	0.40%
ASIA PACIFIC		
S&P/ASX 200	6471.22	0.48%
NIKKEI 225	20456.08	0.96%
CSI 300 (China)	3816.95	1.36%
MENA		
Saudi Arabia	8257.86	0.20%
Dubai	2729.04	0.49%
Qatar	9787.77	-0.30%
BONDS		
U.S. 10-year	1.5080	-0.0271
German Bund 10-yr	-0.6780	-0.0120
AU 10-year	0.9060	0.0200

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## Johnson optimistic

UK PM Boris Johnson said he was prepared to take Brexit talks with the EU down to the very last minute before the Oct. 31 exit deadline, and if necessary to take a decision to leave without a deal on that day. Johnson has 68 days to convince the EU to give him a new Brexit deal, with neither side so far willing to compromise on the most contentious issues. If he can't get a deal, he says Britain will leave the bloc anyway. Johnson said: "I do think that the EU does tend to come to an agreement right at the end."

## Italy could avoid early general elections

Coalition talks between Italy's Five Star Movement and the Democratic Party accelerated, with the two groups nearing an agreement that would have Giuseppe Conte remain prime minister of a new ruling alliance. Deputy Premier Luigi Di Maio of Five Star and Nicola Zingaretti of the Democrats held talks with Conte that lasted into the early hours on Tuesday. And while the Democrats haven't signed off on the new role for Conte, and the 2020 budget remains an obstacle, the two sides will meet again starting at 11 a.m. on Tuesday to continue deliberations.

## China's industrial profits back to growth

Profits at China's industrial firms returned to growth in July, helped by public works spending and improved margins in the petrochemical and auto sectors, but an economic slowdown and the US trade war are expected to weigh on the business outlook. Industrial profits rose 2.6% in July YoY to 512.7bn yuan (\$72.28bn), according to data released on Tuesday, swinging from a 3.1% decline in June. Despite the turnaround in headline growth, worsening conditions for businesses exposed to global trade and smaller private sector firms could push for more stimulus.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	5.96	-
SOLIDERE—B	5.86	-2.01%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.73	-0.27%
BLOM BANK	7.29	-0.14%
BYBLOS BANK	1.15	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The Japanese yen rose on Tuesday as some investors tempered their optimism about the chances for a quick resolution to the US-China trade war, which boosted so-called risk-off trades.** Global markets have been whipsawed by dramatic twists in the trade dispute this month. US President Donald Trump on Monday flagged the possibility of a trade deal with China, days after both sides announced new tariffs. The dollar came under additional pressure versus the yen as a decline in US Treasury yields showed some investors still favored the safety of government debt. The currency market also took some relief from a stronger-than-expected daily yuan fixing by the People's Bank of China, which many traders considered an attempt to slow the yuan's decline versus the dollar. While Washington and Beijing have shown a willingness to return to the negotiating table to resolve their trade row, there are lingering concerns about a lack of a clear path toward resolving a dispute that has dragged on for more than a year and hurt global growth, corporate profits and investments. The yen rose around 0.44% in Asian trading to 105.65 per dollar. The yen, which tends to be bought in times of economic uncertainty, also rose around 0.6% versus the Australian and New



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## FX & COMMODITIES

Zealand dollars. The dollar index measuring the greenback against a basket of six major currencies was lower at 97.876. Benchmark 10-year US Treasury yields fell to 1.5080% in Asia. The yield curve was inverted as 2-year yields traded at 1.5326%, which is commonly considered a sign of an impending economic recession. On Monday the greenback rebounded from near 8-month lows of 104.46 yen after some signs of rapprochement between Washington and Beijing soothed investors' nerves.

**Prior to market opening, the People's Bank of China (PBOC) lowered its official onshore yuan midpoint to 7.0810 per dollar. That was a fresh 11-1/2-year low**, but still at a stronger setting than traders had expected. In onshore trade the dollar rose 0.13% to 7.1615 yuan, strengthening less than 0.76% from Monday, as traders said the Chinese central bank kept the yuan from weakening faster.

**The Australian and NZ dollar weakened as investors turn pessimistic over trade talks.** Aussie gets an extra downdraft after RBA Deputy Gov. Debelle says further depreciation would be welcome. AUD/USD dropped 0.34% to \$0.6752 after climbing 0.3% on Monday; pair is holding above support at Aug. 7 low of \$0.6677. Current threats to the global rules-based trading system are a major risk to both the Australian and global economies, Debelle says in a speech in Canberra. "The depreciation of the currency we've seen has been helpful for the macroeconomic outlook and if it would depreciate further that would also be helpful" in terms of economic growth and inflation. Likely lower bound for RBA rates is "somewhere around about zero, quarter, half a percent".

**The British pound traded higher at \$1.2246, after a 0.5% fall on Monday as investors reassessed whether British Prime Minister Boris Johnson had made any progress in convincing the EU to renegotiate the Brexit agreement.** Johnson said on Monday he was prepared to take Brexit talks with the EU down to the very last minute before the Oct. 31 exit deadline, and if necessary to take a decision to leave without a deal on that day.

**Oil prices rose on Tuesday after Trump predicted a trade deal with China after positive comments by Beijing, calming nerves after a round of tit-for-tat tariff hikes had sent markets reeling.** Brent crude was up 0.32%, at \$58.89 a barrel, after falling 1% in the previous session, dropping for a third day in a row. US West Texas Intermediate (WTI) crude futures were up by 0.56%, at \$53.94 a barrel, having also dropped 1% on Monday for a fourth day of declines. Oil prices have fallen around 20% from their highs for 2019 reached in April, in part because of worries that the US-China trade conflict is hurting the global economy, which could dent demand for oil.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
USD—16:00	US HPI MoM	0.20%	0.10%
USD—16:00	US S&P/CS Composite-20 HPI YoY	2.50%	2.40%
USD—17:00	US CB Consumer Confidence	129.3	135.7
USD—17:00	US Richmond Manufacturing Index	-2	-12

**Wednesday:** UK BRC Shop Price Index, German Gfk Consumer Climate and Import Prices, German 10-yr bond auction, EIA Weekly Report

**Thursday:** AU Private CAPEX, Japan Consumer Confidence, French Prelim GDP, German Prelim CPI, US GDP Price Index, US Initial Jobless Claims, US Pending Home Sales

**Friday:** AU Building Approvals and HIA New Home Sales, German Retail Sales, Eurozone Inflation and Unemployment Rate, US Personal Spending, Canada GDP, US Consumer Sentiment

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CURRENCIES	LAST	1D	YTD
DXY	97.876	-0.21%	1.77%
EUR/\$	1.1113	0.10%	-3.09%
GBP/\$	1.2246	0.24%	-3.98%
AUD /\$	0.6752	-0.34%	-4.21%
NZD/\$	0.6368	-0.41%	-5.22%
\$/JPY	105.65	0.44%	3.82%
\$/CAD	1.3234	0.15%	3.05%
\$/CHF	0.9778	0.08%	0.44%
\$/SEK	9.6500	0.25%	-8.26%
\$/NOK	9.0024	0.00%	-4.02%
\$/DKK	6.7104	0.10%	-2.97%
\$/TRY	5.8434	-0.34%	-9.48%
EUR/GBP	0.9075	0.11%	-0.94%
EUR/JPY	117.41	0.36%	7.17%
EUR/CHF	1.0866	0.04%	3.58%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1534.21	0.45%	19.63%
Silver Spot \$/Oz	17.76	0.52%	14.61%
Platinum Spot \$/Oz	858.71	0.30%	7.93%
Palladium Spot \$/Oz	1485.65	0.32%	17.74%
COPPER \$/lb	254.05	-0.37%	-3.99%
WTI \$/bbl	53.94	0.56%	18.78%
BRENT \$/bbl	58.89	0.32%	9.46%

## EQUITIES & BONDS

**Asian stocks rose in step with their global peers on Tuesday while safe-haven bonds retreated, after US President Donald Trump softened his tone against China and predicted the two countries would be able to reach a trade deal.**

Trump said on Monday that Chinese officials had contacted their US trade counterparts and offered to resume negotiations, an assertion that China declined to confirm. His comments helped temper sharp losses in global markets after both sides announced new tariffs on Friday, in the latest escalation in the protracted trade dispute. MSCI's broadest index of Asia-Pacific shares outside Japan was up 0.3% after dropping 1.3% the previous day. Japan's Nikkei rose 1%. The Shanghai Composite Index rallied 1.36%, with an additional boost from data showing China's industrial firms returned to profit in July. South Korea's KOSPI added 0.4%. Equity markets may have found better footing for now but the longer-term outlook for riskier assets, buffeted repeatedly by trade concerns, remained shaky.

**US stocks rose on Monday, following a sharp sell-off in the prior session, after US President Donald Trump predicted a trade deal with China, cooling investor concerns after a ramp-up in rhetoric derailed markets last week.** Following the G7 summit of world leaders in Biarritz, France, Trump said he believed China was sincere about the desire to reach a deal, citing what he described as increasing economic pressure on Beijing and job losses there. Shares of tariff-sensitive companies rose in response. Apple Inc's 1.90% gain provided the biggest boost to each of the major

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## EQUITIES & BONDS

indexes. Chipmakers, which are heavily reliant upon China for revenue, also rose. The Philadelphia Semiconductor index added 0.86% after slumping more than 4% on Friday. Still, market participants said the rebound paled in comparison to last week's decline, and they expected recent volatility to continue. Commerce Department data showed new orders for key US-made capital goods rose modestly in July, while shipments fell by the most in nearly three years. The data could provide the Fed with more fuel to cut interest rates again when policymakers meet next month. Concerns about the global economy slipping into recession and uncertainty over the pace of US interest rate cuts have created some anxiety about how long the current US expansion will last. The S&P 500 is off more than 5% from the record high hit in late July after suffering its longest run of weekly declines since May. Even with Monday's broad gains, with each of the major S&P 500 sectors rising, Wall Street's fear gauge, the CBOE Volatility index .VIX, hit its highest level in more than a week earlier in the session. Among other stocks, Celgene Corp rose 3.20% after Amgen Inc said it would buy the company's psoriasis drug Otezla, clearing the way for Bristol-Myers Squibb Co to go ahead with its \$74bn deal for Celgene. Shares of Bristol-Myers rose 3.28%.

**In the MENA region, the Saudi index bounced back from earlier losses on Monday with the US and China seeking to soothe trade tensions. UAE stocks rose after recent sell-offs made stock valuations more attractive.** The Saudi index was up 0.2% after falling in previous three sessions with Banque Saudi Fransi gaining 2.1% and Saudi Electricity adding 2.8%. Abu Dhabi's index rebounded 0.6% after three consecutive days of losses, with Emirates Telecom increasing 0.6% and market heavyweight First Abu Dhabi Bank edging up 0.5%. A Qatari regulator said on Sunday it had fined First Abu Dhabi Bank 200mn Qatari riyals (\$55mn) for obstructing an ongoing investigation into suspected market manipulation, a charge the bank later denied.

## COMPANY NEWS HEADLINES

- Papa John's International Inc is set to name Rob Lynch as the pizza chain's new chief executive officer, Bloomberg reported late on Monday, barely 19 months after Steve Ritchie took over as top executive following a bitter board dispute.
- Chip supplier Nvidia Corp on Monday said it was teaming up with VMware Inc and Amazon.com Inc's cloud division to court large businesses looking to host artificial intelligence programs in Amazon's cloud.
- Air Canada's planned acquisition of Transat AT raises issues of public interest and will require additional scrutiny, including the impact on airline competition, before it can be approved, Canada's transport minister said on Monday.
- Brazilian conglomerate Odebrecht SA, which has been in bankruptcy protection since June, has proposed to creditors a swap of their debt for instruments similar to equity, according to a statement on Monday.
- Johnson & Johnson was ordered to pay \$572mn to the state of Oklahoma for its role in the public-health crisis spawned by opioid painkillers.
- Oil and gas producer Whitecap Resources Inc on Monday cut its capital spending plan by 17% for the second half of 2019 citing global economic uncertainty.
- KKR has become the biggest shareholder of German media group Axel Springer, paying 2.9bn euros (\$3.2bn) for a 43.54% stake, the US private equity firm said on Monday.
- Oil and gas producer PDC Energy Inc on Monday agreed to buy smaller rival SRC Energy Inc in a \$971.3mn all-stock deal, in an attempt to boost its cash flow and create the second largest producer in Colorado's DJ basin.
- Kraft Heinz Co's newly-appointed chief executive officer replaced finance chief David Knopf on Monday in what he said was a strategic decision, naming the more "seasoned" Paulo Basilio, after the company was forced to restate three years of results.



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DOW JONES	25898.83	1.05%	11.02%
S&P 500	2878.38	1.10%	14.82%
NASDAQ	7853.74	1.32%	18.36%
S&P/TSX	16098.79	0.38%	12.40%
EUROPE	LAST	1D	YTD
STXE 600	371.28	-0.02%	9.96%
FTSE 100	7094.98	-0.47%	5.45%
CAC 40	5351.02	0.45%	13.11%
DAX	11658.04	0.40%	10.41%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6471.22	0.48%	14.61%
NIKKEI 225	20456.08	0.96%	2.20%
TOPIX	1489.69	0.79%	-0.29%
CSI 300 (China)	3816.95	1.36%	26.78%
MENA	LAST	1D	YTD
Saudi Arabia	8257.86	0.20%	5.51%
Abu Dhabi	4997.22	0.58%	1.67%
Dubai	2729.04	0.49%	7.88%
Qatar	9787.77	-0.30%	-4.96%
10-YEAR BONDS	LAST	1D	YTD
U.S.	1.5080	-0.0271	-1.1762
Germany	-0.6780	-0.0120	-0.9200
U.K.	0.5600	0.0790	-0.7170
Australia	0.9060	0.0200	-1.4120

## TOP SELECTED NEWS

### Macron says deal struck with US on taxing tech giants

(Bloomberg) Donald Trump and Emmanuel Macron's governments have struck a deal to end a feud over France's tax on some tech giants, the French president said. "We have reached a very good agreement," Macron said at a joint news conference with Trump at the conclusion of the Group of Seven summit in Biarritz, France. President Emmanuel Macron said the French and US governments have struck a deal on taxes for some large tech firms. Trump had threatened to impose tariffs on French wine imports in response to France's planned tax. He didn't directly answer when asked to confirm the deal, instead joking that "I can confirm the first lady loved your French wine." Finance Minister Bruno Le Maire told Bloomberg that wine tariffs were definitely off: "It is obvious when we have a formal and definitive deal we withdraw what was the issue, the section 301, that is the heart of the deal." It was a reference to the legal mechanism the Trump administration used to start retaliatory action.

### US business investment appears to struggle in Q3

(Reuters) New orders for key US-made capital goods rose modestly in July while shipments fell by the most in nearly three years, pointing to continued weakness in business investment and a slowdown in economic growth early in Q3.



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## TOP SELECTED NEWS

Coming against the backdrop of an escalation in US-China trade tensions, the report from the Commerce Department on Monday could provide more ammunition for the Fed to cut interest rates again next month. Fed Chair Jerome Powell told a conference of central bankers last week that trade policy uncertainty seems to be playing "a role in the global slowdown and in weak manufacturing and capital spending in the US." Though Powell described the economy as being in a "favorable place," he reiterated that the US central bank would "act as appropriate" to keep the longest economic expansion in history on track.

### **Britain to make Huawei decision on 5G by the autumn: digital minister**

(Reuters) Britain will make a decision on whether to allow China's Huawei equipment to be used in its 5G networks in the autumn, the digital minister Nicky Morgan said. "We will make the right decision for the UK. I would hope we could do something by the autumn," Morgan told BBC radio, referring to the season that runs in Britain from mid September to December. "We've got to make sure that this is going to be a decision for the long term, making sure that we keep all our networks secure."

### **French oil major Total signs asset transfer deals with Qatar Petroleum**

(Reuters) French oil major Total said it had signed deals to transfer some of its assets in Kenya, Guyana and Namibia to Qatar Petroleum. In Namibia, Total will transfer to Qatar Petroleum a 30% interest in Block 2913B while keeping a 40% interest. Total will also transfer 28.33% in Block 2912 while retaining a 37.78% stake. In Guyana, Qatar Petroleum will have 40% of the company holding Total's existing 25% interests in the Orinduik and Kanuku blocks. In Kenya, Total and Eni will transfer a combined 25% interest in Blocks L11A, L11B and L12 to Qatar Petroleum.

### **Amgen will buy Celgene Drug in \$13.4 billion antitrust sale**

(Bloomberg) Amgen Inc. will pay \$13.4bn for a blockbuster psoriasis drug from Celgene Corp., which is shedding the asset in order to win antitrust regulators' sign-off for its \$74bn merger with Bristol-Myers Squibb Co. The all-cash deal will give Amgen a growing product at a time when the blockbuster biotechnology drugs it made its name on are beginning to fade. For Celgene and Bristol-Myers, the divestiture will pave the way to one of the pharmaceutical industry's largest mergers of the past decade. The price is \$11.2bn once future cash tax benefits are taken into account, Thousand Oaks, California-based Amgen said in a statement Monday. Bristol-Myers also expanded a share-buyback plan to \$7bn, from \$5bn.

### **Canadian regulator summons RBC, TD Bank over malpractice charges**

(Reuters) The Ontario Securities Commission has issued a notice of hearing to Royal Bank of Canada and Toronto-Dominion Bank to settle charges of forex trading malpractices, the Canadian regulator said on Monday. Both banks face charges relating to allegations that their traders used confidential customer information to gain potential advantage in foreign exchange transactions that took place between 2011 and 2013, the regulator said. The hearing will be held on Friday at the commission's office in Toronto.

### **KFC partners with Beyond Meat to test plant-based nuggets, wings**

(Reuters) Yum Brands Inc said on Monday it will be testing Beyond Meat Inc's plant-based chicken nuggets and boneless wings at an Atlanta KFC restaurant, the latest fast-food chain trying new options to attract vegan diners. The quick-service restaurant will roll out its vegan menu items nationally based on the customer feedback from the Atlanta test, Yum said. Yum is the latest big-chain restaurant jumping on the vegan bandwagon, a growing market as more fast-food chains tweak their menus to add new options for vegans and 'flexitarians'.

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## APPENDIX & DISCLAIMER

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