

MARKETS TODAY

Wednesday, August 28, 2019

MARKETS IN BRIEF

- Part of the U.S. Treasury curve inverted further signaling that a recession is closer. The premium on 2-year Treasury yields over 10-year yields was at 6.63 bps, a level not seen since 2007. The US 30-year Treasury yield fell to a record low of 1.9039%.
- European bond yields edged back to all-time lows. Italy's bond yields steadied after posting their biggest 1-day fall in almost two months on Tuesday as the country inched towards the formation of a new government. Euro currency steadied on the news.
- Safe-haven assets firmed up as the markets remained highly cautious amid unresolved conflicts across the globe.
- Australian dollar continued to trade under pressure from RBA Deputy's comments yesterday. NZ dollar hit earlier \$0.6326, its lowest since September 2015 (4-year low).
- British pound dropped on reports that Queen Elizabeth could suspend the parliament.
- Oil prices rose after a report showed a more-than-expected drop in crude stocks. Traders shifted attention to EIA's official weekly report at 17:30 LT.
- Ongoing uncertainties pushed Wall Street yesterday into the red area, led by the financial sector.

Last day for coalition talks

Head of state Sergio Mattarella meets with Italy's main political leaders on Wednesday in a last-ditch bid to carve out a viable majority in parliament, after a day of brinkmanship, finger-pointing and recriminations between the two parties trying to put together a new government. Mattarella's second day of consultations features talks with the Democratic Party and the Five Star Movement, long-time rivals now bound by a desire to work together to forestall early elections that would likely be won by Matteo Salvini's rightist League. The president has set a tight deadline to see if there's a chance the Democrats and Five Star can reach an agreement on a new coalition.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1097	0.06%
GBP/\$	1.2229	-0.51%
AUD /\$	0.6745	-0.10%
\$/JPY	105.73	0.02%
\$/CAD	1.3306	-0.17%
Gold \$	1541.74	-0.07%
WTI \$	55.54	1.11%
BRENT \$	59.89	0.64%
AMERICA		
DOW JONES	25777.90	-0.47%
S&P 500	2869.16	-0.32%
NASDAQ	7826.95	-0.34%
EUROPE		
STXE 600	373.62	0.63%
CAC 40	5387.09	0.67%
DAX	11730.02	0.62%
ASIA PACIFIC		
S&P/ASX 200	6500.64	0.45%
NIKKEI 225	20479.42	0.11%
CSI 300 (China)	3802.58	-0.38%
MENA		
Saudi Arabia	8285.54	0.34%
Dubai	2751.29	0.82%
Qatar	10008.80	2.26%
BONDS		
U.S. 10-year	1.4677	-0.0034
German Bund 10-yr	-0.7060	-0.0130
AU 10-year	0.8860	-0.0200

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No Brexit deal if backstop remains

British PM Boris Johnson told European Commission President Jean-Claude Juncker by phone on Tuesday that there was no prospect of a Brexit deal unless the Irish border backstop was abolished, his office said. "The Prime Minister set out that the UK will be leaving the EU on Oct. 31 whatever the circumstances, and that we absolutely want to do so with a deal," a spokeswoman said. "The PM was also clear however that unless the Withdrawal Agreement is reopened and the backstop abolished there is no prospect of that deal."

... Parliament could be suspended

Britain's Queen Elizabeth could be asked as early as Wednesday to agree to suspend parliament, senior BBC journalist Nick Robinson said on Twitter. PM Boris Johnson has refused to rule out suspending, or proroguing parliament, to prevent it from blocking his plans to take Britain out of the EU by Oct. 31. "Hearing that the Queen could be asked to agree to prorogue parliament as early as today," Robinson, the former BBC political editor, said. "She's in Balmoral. Would be done by Order in Council. Only one source. Not confirmed. Watch this space."

RBA seen on hold

Australia's central bank is all but certain to keep its cash rate at a record low of 1% next week though it will likely cut again two more times to boost inflation and support a stuttering economy, a Reuters poll showed. The Reserve Bank of Australia (RBA) chopped its benchmark rate twice since June with an eye on unemployment which is slowly ticking higher. The cuts have prompted banks to lower mortgage rates, helping spark a welcome revival of the country's subdued housing market.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	5.84	-2.01%
SOLIDERE—B	5.86	-
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.73	-
BLOM BANK	7.29	-
BYBLOS BANK	1.15	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

FX & COMMODITIES

The Japanese yen stood tall against its peers on Wednesday, with an inversion of the US yield curve stoking recession worries and keeping the safe-haven Japanese currency in demand. The yen traded at 105.730 per dollar, holding its gains from the previous day, when it advanced 0.35%. The 10-year US Treasury yield stood at 1.4677%, staying in proximity of 1.443%, its lowest since July 2016 brushed on Monday. The 10-year Treasury yield was about 4 bps below the 2-year yield, and the gap between the two maturities was the widest since 2007. But some of the optimism generated by Trump's comments on Monday that raised hopes that the two sides could begin to de-escalate their tariff war has begun to fade after China's foreign ministry dismissed US suggestions that there had been contact between the two sides.

The euro was nearly flat at \$1.1097 after inching down 0.1% on Tuesday when it had managed to recoup some of the intraday losses on hopes that a snap election in Italy could be avoided.

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FX & COMMODITIES

The British pound rallied on Tuesday after Britain's opposition Labour Party leader Jeremy Corbyn said he would do everything necessary to prevent Britain leaving the EU without a divorce deal. Sterling traded near a 1-month high of \$1.2310 scaled overnight. However, the it dropped following reports that Queen Elizabeth could suspend the parliament.

The Australian dollar has been on the back foot since RBA Deputy Governor Guy Debelle said on Tuesday that a weakening the currency was supporting the economy and that further falls would be beneficial. The Aussie had fallen to a decade-low of \$0.6677 early in August, weighed by factors including RBA's monetary easing bias and a bleaker economic outlook in China, Australia's largest trading partner. The Australian dollar added to overnight losses and slipped 0.10% to \$0.6745. The Japanese currency also extended an overnight surge against the Australian and New Zealand dollars and held near a 28-month peak versus the euro.

Gold eased on Wednesday, after rising over 1% in the previous session on fears of a possible recession, but held close to a more than 6-year high on hopes of a rate cut by the U.S. central bank and uncertainties around the Sino-U.S. trade talks. Spot gold was down 0.1% at \$1,541.74 per ounce. On Monday it touched \$1,554.56, its highest in over six-years. Adding some pressure on bullion was a firm dollar, while Asian equities posted modest gains.

Oil prices rose on Wednesday, with US crude gaining 1% after an industry report showed stockpiles in the US, the world's biggest oil user, fell more than expected, easing worries about economic growth due to the China-US trade war. Brent crude futures climbed 0.64%, to 59.89 a barrel. West Texas Intermediate (WTI) crude futures gained 1.11%, to \$55.54 a barrel. US crude stockpiles fell sharply last week as imports dropped, plummeting by 11.1mn barrels, compared with expectations for a 2mn barrel draw, data from industry group the American Petroleum Institute (API), showed. The US government's weekly report is due to be released Wednesday morning and if official numbers confirm the API data then it will be the biggest weekly decline in nine weeks.

ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—11:00	Eurozone Private Loans YoY	3.50%	3.30%
EUR—During day	German 10-year bond auction		-0.41/2.00
OIL—17:30	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	98.032	0.03%	1.93%
EUR/\$	1.1097	0.06%	-3.23%
GBP/\$	1.2229	-0.51%	-3.84%
AUD /\$	0.6745	-0.10%	-4.31%
NZD/\$	0.6344	-0.28%	-5.58%
\$/JPY	105.73	0.02%	3.75%
\$/CAD	1.3306	-0.17%	2.49%
\$/CHF	0.9822	-0.07%	-0.01%
\$/SEK	9.6687	0.04%	-8.42%
\$/NOK	9.0181	-0.07%	-4.17%
\$/DKK	6.7207	0.06%	-3.10%
\$/TRY	5.8079	0.34%	-8.93%
EUR/GBP	0.9049	-0.28%	-0.66%
EUR/JPY	117.33	-0.03%	7.24%
EUR/CHF	1.0900	-0.15%	3.26%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1541.74	-0.07%	20.21%
Silver Spot \$/Oz	18.31	0.60%	18.17%
Platinum Spot \$/Oz	872.04	0.70%	9.60%
Palladium Spot \$/Oz	1477.99	-0.25%	17.14%
COPPER \$/lb	255.85	0.22%	-3.31%
WTI \$/bbl	55.54	1.11%	22.31%
BRENT \$/bbl	59.89	0.64%	11.28%

EQUITIES & BONDS

A key part of the US yield curve, a closely-followed recession indicator, inverted further on Wednesday while 30-year Treasury yields fell to a few record low on growing concern about the fallout from a bitter global trade conflict. The premium on two-year Treasury yields over 10-year yields was at 6.63 bps, a level not seen since 2007. The US 30-year Treasury yield fell to a record low of 1.9039% and was last down 6 bps on the day.

Asian shares eked out cautious gains on Wednesday, as higher Wall Street futures provided some relief after an overnight US selloff, though deeper worries about the global economy and trade continue to weigh on market sentiment. Japan's Nikkei rose 0.11%, Australia's shares climbed 0.45% while Korea's KOSPI was up 0.76%. MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.03%, held back by weaker Chinese markets.

US stocks slipped on Tuesday, weighed down by financial stocks as a deepened yield curve raised US recession worries, while uncertainty reigned on the progress of trade negotiations between the US and China. US stocks initially opened higher, building on Monday's advance, as US President Donald Trump predicted another round of talks with Beijing. China's foreign ministry, however, reiterated on Tuesday that it had not received any recent US telephone call on trade. Further weighing on sentiment was a deepening of the inversion in the yield curve between the 2-year and 10-year US Treasuries, underscoring worries about a weakening global economy. Financial shares, which tend to

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EQUITIES & BONDS

weaken in lower rate and soft economic environments, lost 0.84%, while defensive sectors such as utilities and real estate led advancing sectors. The S&P 500 has lost nearly 4% in August on worries the impact of the intensifying US-China trade war will have on the slowing global economy and corporate profits, along with uncertainty around the pace of US interest rate cuts from the Federal Reserve. With the next Federal Reserve meeting scheduled for mid-September, investors are gauging the strength of the US economy for clues on where rates are headed. They will have data on the labor market and manufacturing next week to consider before the policy announcement. Among stocks, Johnson & Johnson shares rose 1.44% after an Oklahoma judge said J&J must pay \$572.1 million for its part in fueling the US opioid epidemic, a sum that was substantially less than what investors had expected. Philip Morris International shares fell 7.76% after the tobacco maker said it was in talks with Altria Group Inc to combine in an all-stock merger of equals. Altria's shares were down 3.97%. Shares in J. M. Smucker Co tumbled 8.18% after the packaged food maker cut its full-year earnings forecast and missed estimates for quarterly profit and sales.

In the MENA region, Saudi stocks closed higher on Tuesday as investors bought ahead of the addition of more Saudi stocks to the MSCI emerging markets index. The UAE and Qatar markets also gained. Saudi index closed up 0.3% after spending most of the day in the red. Samba Financial Group rose 3.6% and Saudi Basic Industries advanced 1.8%. A second batch of Saudi shares will be added to the MSCI emerging markets index on Wednesday after the country's stocks were first included in the index in May. The inclusion of Saudi stocks in the MSCI, and FTSE, indexes has attracted billions of dollars from foreign investors, who have been net buyers every month this year, sending the Saudi index up nearly 20% at its peak in May. Three of an eventual five tranches of Saudi stocks have been added to the FTSE emerging-market index this year.

COMPANY NEWS HEADLINES

- Permira is kicking off a Frankfurt listing for software company TeamViewer as early as this week in what could be Germany's biggest technology IPO in almost two decades, people familiar said. The buyout firm could seek a valuation of as much as 5bn euros (\$5.5bn) in a sale of up to 40% of the company.
- Afterpay Touch Group, a loss-making Australian buy-now-pay-later company, said growth in the US was exceeding its expectations, giving its shares a boost amid heightened regulatory scrutiny at home.
- Midstream energy firm Tallgrass Energy said on Tuesday it had received an offer from Blackstone Infrastructure Partners, its partners and affiliates to acquire the shares in the company that they do not already own.
- OxyContin maker Purdue Pharma LP and its owners, the Sackler family, are in discussion to settle more than 2,000 opioid lawsuits against the company for \$10bn to \$12bn, two people familiar with the matter said on Tuesday.
- Canada's energy regulator on Tuesday responded to shipper complaints about Enbridge Inc's plan to switch to fixed contracts on its Mainline pipeline network by announcing a fast-track process to gather comment on the proposal that could lead to its being delayed.

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AMERICA	LAST	1D	YTD
DOW JONES	25777.90	-0.47%	10.50%
S&P 500	2869.16	-0.32%	14.45%
NASDAQ	7826.95	-0.34%	17.96%
S&P/TSX	16183.59	0.53%	12.99%
EUROPE	LAST	1D	YTD
STXE 600	373.62	0.63%	10.65%
FTSE 100	7089.58	-0.08%	5.37%
CAC 40	5387.09	0.67%	13.88%
DAX	11730.02	0.62%	11.09%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6500.64	0.45%	15.13%
NIKKEI 225	20479.42	0.11%	2.32%
TOPIX	1490.35	0.04%	-0.25%
CSI 300 (China)	3802.58	-0.38%	26.30%
MENA	LAST	1D	YTD
Saudi Arabia	8285.54	0.34%	5.86%
Abu Dhabi	5130.75	2.67%	4.39%
Dubai	2751.29	0.82%	8.76%
Qatar	10008.80	2.26%	-2.82%
10-YEAR BONDS	LAST	1D	YTD
U.S.	1.4677	-0.0034	-1.2165
Germany	-0.7060	-0.0130	-0.9480
U.K.	0.4810	-0.0210	-0.7960
Australia	0.8860	-0.0200	-1.4320

TOP SELECTED NEWS

Fed divided on policy, discount rate votes show

(Reuters) US central bankers may have been more deeply divided than previously understood over the decision last month to cut interest rates for the first time in more than a decade, records from meetings held across the Fed's 12 regional Fed banks suggest. The Fed cut its benchmark policy rate a quarter of a point to a range of 2%-2.25% on July 31. Most directors at regional Fed banks saw heightened trade tensions and uncertainty as risks to the economic outlook, summaries of their discussions released on Tuesday showed, similar to policymakers who voted on the rate cut. But those at half of the Fed's 12 regional Fed banks still wanted to keep the emergency lending rate for commercial banks unchanged in votes taken as late as just one week before the Fed's July 30-31 policy-setting meeting, the minutes showed.

China's c.bank to issue own cryptocurrency as soon as Nov - Forbes

(Reuters) China plans to issue its own cryptocurrency as early as Nov. 11, the country's busiest shopping day for online sales, US financial magazine Forbes said, citing two sources familiar with the matter. The People's Bank of China (PBOC) has been exploring the possibility of launching its own digital currency since 2014 to cut the costs of



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circulating traditional paper money and boost policymakers' control of money supply. Some analysts say China appears to have accelerated the push to digital money after US social media giant Facebook announced plans in June to launch digital coin Libra - the most high-profile proposed digital currency so far - within a year, a move that has shocked global policymakers and raised regulatory concerns.

Fake-branded bars slip dirty gold into world markets

(Reuters) A forgery crisis is quietly roiling the world's gold industry. Gold bars fraudulently stamped with the logos of major refineries are being inserted into the global market to launder smuggled or illegal gold, refining and banking executives tell Reuters. The fakes are hard to detect, making them an ideal fund-runner for narcotics dealers or warlords. In the last three years, bars worth at least \$50mn stamped with Swiss refinery logos, but not actually produced by those facilities, have been identified by all four of Switzerland's leading gold refiners and found in the vaults of JPMorgan Chase & Co., one of the major banks at the heart of the market in bullion, said senior executives at gold refineries, banks and other industry sources.

Philip Morris in talks to reunite with Altria in all-stock deal

(Bloomberg) Philip Morris International Inc., the maker of Marlboro cigarettes in overseas markets, is in talks to reunite with Altria Group Inc. more than 10 years after the tobacco giants split their operations. Altria shares reversed earlier gains to fall as much as 3.3% on Tuesday. Philip Morris declined as much as 11%. The deal would be the biggest since AT&T Inc. bid for Time Warner in 2016. Philip Morris had a market value of nearly \$126.4bn at the close of trading on Aug. 23, before speculation of a possible deal gained traction, while Altria was worth about \$86.7bn.

BP exits Alaska after 60 years in \$5.6bn Hilcorp sale

(Bloomberg) BP Plc agreed to sell its entire business in Alaska to closely held Hilcorp Energy Co. for \$5.6bn, ending a six-decade presence in the state as oil production there declines. The deal includes BP's operating stake in Prudhoe Bay, the largest-producing oilfield in US history, as well as all its Alaskan pipelines, London-based BP said Tuesday in a statement. It makes Hilcorp, the oil company founded by Texas-born Jeffrey Hildebrand, the second-largest producer in the state behind ConocoPhillips.

Deutsche Bank has tax returns sought by House Democrats

(Bloomberg) Deutsche Bank confirmed that it has tax returns requested by US lawmakers seeking financial information for Trump and his family. Whose returns are those? That's still a secret. The disclosure was made by the bank in a letter filed Tuesday in response to a question from an appeals court. The panel is considering a request from Trump to block access to financial records at Deutsche Bank and Capital One Financial Corp. subpoenaed by House Democrats. In a separate letter, Capital One said it does not possess the tax returns being sought.

Hyundai Motor agrees wage deal, avoids strike for first time in eight years

(Reuters) Hyundai Motor Co and its South Korean workers' union have reached a tentative wage deal and averted strike action for the first time in eight years, sending the automaker's shares up by more than 4%. The union said it took into account "the uncertain political and economic situation" stemming from a diplomatic spat with Japan as well as a US-China trade dispute. Hyundai's unionized workers in South Korea have staged strikes in all but four years since the union was created in 1987. But the union has faced growing public and media criticism for walking out of wage talks despite workers' relatively high pay and at a time of economic slowdown.

Aramco Trading sells first US West Texas Light crude to South Korea's Hyundai - sources

(Reuters) Aramco Trading Company (ATC) sold its first-ever cargo of US West Texas Light (WTL) crude, with a South Korean refiner the buyer, as the Saudi Aramco unit expands its US oil dealings to boost trade volumes, four people familiar with the matter said. ATC is key to Saudi Aramco's strategy as it expands its refining and petrochemical operations to boost global sales.

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