

# GLOBAL MARKETS

Monday, February 04, 2019

## Markets in brief

- China's financial markets will be closed all week for the Lunar New Year holiday. Other Asian markets are also closed for parts of the week, keeping wider market activity subdued. Earlier today, Asian markets hovered near 4-month highs.
- Australian dollar was little lower before RBA's policy decision at 5:30 LT tomorrow. Other important data will be released earlier: Trade Balance and Retail Sales.
- U.S. dollar firmed after Friday's solid economic data. However, Fed's recent cautiousness would keep the dollar under pressure.
- British pound to remain volatile as Brexit uncertainty elevates. Investors eyed BoE inflation report and policy decision on Thursday.
- Oil prices steadied maintaining gains from previous session.
- U.S. stocks ended mixed as a slump in retail stocks offset an upbeat jobs report.

## May's "pragmatic solution"

British Prime Minister Theresa May said on Sunday she would seek a "pragmatic solution" to a parliamentary impasse over the terms on which Britain leaves the European Union when she tries to reopen talks with Brussels. With less than two months until Britain is due to leave the bloc on March 29, concerns are growing over the risk of a disorderly 'no deal' exit.

## ... Nissan sending a Brexit blow

Carmaker Nissan has scrapped plans to build its new X-Trail SUV in Britain and will produce it solely in Japan, warning two months before Brexit that uncertainty over Britain's departure was making it harder to plan for the future. Falling demand for diesel cars in Europe has forced Nissan to invest in other technologies and save costs. It cut hundreds of jobs at its Sunderland factory in the north of England, Britain's biggest car plant, last year as output slumped 11%, hit by levies and crackdowns on diesel.

## U.S. data on Friday were solid

U.S. hiring in January topped all forecasts while wage gains cooled and the government shutdown pushed the unemployment rate up to 4%. A Labor Department report showed nonfarm payrolls jumped by 304,000 jobs last month, the largest gain since February 2018 and beating economists' expectations for an increase of 165,000. That report, along with better-than-expected ISM manufacturing activity numbers for January, pointed to underlying strength in the economy despite an uncertain outlook that has left the Federal Reserve wary about more U.S. interest rate hikes this year.

## Trump still positive on China

Agreements with both China and North Korea are on the horizon, the president told CBS, adding he thinks Pyongyang "wants to make a deal" on denuclearization. Trump and Xi Jinping may meet in Vietnam on Feb. 27-28, the SCMP reported. Trump reiterated that a date for his next summit with Kim Jong Un will be announced shortly.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1445	-0.10%
GBP/\$	1.3072	-0.05%
AUD /\$	0.7236	-0.19%
NZD/\$	0.6895	-0.07%
\$/JPY	109.77	-0.25%
\$/CAD	1.3101	0.01%
\$/CHF	0.9968	-0.12%
Gold \$	1313.25	-0.36%
Silver \$	15.84	-0.43%
Platinum \$	822.73	-0.17%
WTI \$	55.18	-0.14%
BRENT \$	62.78	0.05%
<b>AMERICA</b>		
DOW JONES	25063.89	0.26%
S&P 500	2706.53	0.09%
NASDAQ	7263.87	-0.25%
<b>EUROPE</b>		
STXE 600	359.71	0.29%
CAC 40	5019.26	0.53%
DAX	11180.66	0.07%
<b>ASIA PACIFIC</b>		
S&P/ASX 200	5891.20	0.48%
NIKKEI 225	20883.77	0.46%
CSI 300 (China)	3247.40	1.43%
<b>MENA</b>		
Saudi Arabia	8526.71	-0.39%
Dubai	2540.25	-1.06%
Qatar	10689.17	-0.29%
<b>BONDS</b>		
U.S. 10-year	2.6948	0.0001
German Bund 10-year	0.1700	0.0000
AU 10-year	2.2310	0.0003
<b>BEIRUT S.E.</b>		
SOLIDERE - A	6.71	1.36%
SOLIDERE - B	6.54	1.71%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.64	-
BLOM BANK	9.05	-
BYBLOS BANK	1.36	0.74%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

## FX &amp; COMMODITIES

The US dollar hovered near a one-week high against the yen on Monday, buoyed by stronger-than-expected US jobs and factory data, although the Fed's cautious policy outlook and thinned holiday trade in Asia are likely to cap further gains. Data on Friday showed that the US economy created 304,000 jobs in January, the highest in 11 months, and above street estimates. The greenback was marginally higher versus the yen at 109.77, following its largest %age gain in almost a month during Friday's US session. The solid jobs report also allayed concerns of the slowdown in the US economy, leading traders to trim expectations the Fed would need to cut interest rates to support the economy later this year. The benchmark 10-year US Treasury yield was 2.69%, rebounding from a four-week low of 2.619% earlier last week. Rising US yields are most likely to support the dollar in the near term. In broader moves, currency markets stayed in tight ranges in early Asian trade, with euro trading little lower at \$1.1454. China's financial markets are closed all week for the Lunar New Year holiday. Other Asian markets are also closed for parts of the week, keeping wider market activity subdued. Despite the strong labor market, the US central bank is widely expected to keep rates steady this year thanks to heightened worries over global growth, especially in China. Growth in the euro area has also been weaker-than-expected with Europe's main economic engines, France and Germany, slowing down. Rising US interest rates were the main driver of the greenback's outperformance last year. However, most analysts do not see much upside in the dollar this year as US borrowing costs are widely expected to remain steady.

The Australian dollar was lower after the release of weaker-than-expected building approvals data. Traders are now focusing on the Reserve Bank of Australia's monetary policy meeting on Tuesday, where it is widely expected to keep the cash rate steady. Weakening economic data has led analysts to feel the RBA would most likely keep monetary policy accommodative. Futures markets imply around a 50-50 chance the RBA will cut the 1.5% cash rate by the end of the year, despite its repeated assertions that the next move would be up.

The British pound was flat as traders expect the British pound to remain volatile as Brexit uncertainty remains high. The Bank of England is scheduled to meet later this week and widely expected to keep interest rates steady.

Oil prices were stable on Monday, largely maintaining gains from the previous session as OPEC-led supply cuts and US sanctions against Venezuela provided the market with support. OPEC as they make good on their pact to curb a supply overhang were compounded by falling US oil rig counts and sanctions on Venezuelan oil sales.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	95.721	0.15%	-0.47%
EUR/\$	1.1445	-0.10%	-0.19%
GBP/\$	1.3072	-0.05%	2.49%
AUD /\$	0.7236	-0.19%	2.65%
NZD/\$	0.6895	-0.07%	2.62%
\$/JPY	109.77	-0.25%	-0.07%
\$/CAD	1.3101	0.01%	4.09%
\$/CHF	0.9968	-0.12%	-1.47%
\$/SEK	9.0660	-0.17%	-2.35%
\$/NOK	8.4480	-0.11%	2.28%
\$/DKK	6.5231	-0.10%	-0.18%
\$/TRY	5.2291	-0.39%	1.15%
EUR/GBP	0.8755	0.02%	2.68%
EUR/JPY	125.62	-0.13%	0.17%
EUR/CHF	1.1408	-0.02%	-1.34%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1313.25	-0.36%	2.40%
Silver Spot \$/Oz	15.84	-0.43%	2.24%
Platinum Spot \$/Oz	822.73	-0.17%	3.40%
Palladium Spot \$/Oz	1353.01	-0.12%	7.23%
COPPER \$/lb	276.55	-0.27%	5.11%
WTI \$/bbl	55.18	-0.14%	21.52%
BRENT \$/bbl	62.78	0.05%	16.69%

In focus today 

	TIME (LT)	EVENT	FCAST	PRIOR
		China Holiday		
EUR	11:30	Eurozone Sentix Inv Confidence	-1.1	-1.5
EUR	12:00	Eurozone PPI MoM	-0.70%	-0.30%
USD	17:00	US Factory Orders MoM	0.30%	-2.10%

**Tuesday:** AU Retail Sales, AU Trade Balance, AU RBA Policy Decision, UK Services PMI, Eurozone Services PMI, US ISM Non-Manufacturing PMI

**Wednesday:** RBA Gov Lowe speaks, US Trade Balance, Canada Ivey PMI, NZ Jobs Report

**Thursday:** Fed Chair Powell speaks, EU Economic Forecasts, ECB Economic Bulletin, BoE Inflation Report, Policy Decision, US Initial Jobless Claims

**Friday:** Japan Current Account, AU RBA Policy Statement, Canada Jobs Report

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## STOCKS & BONDS

**Asia stocks hovered near 4-month highs on Monday after a mixed performance on Wall Street at the close of last week.** Spread-bettors expect European markets to start on a cautious note, with London's FTSE and Paris's CAC seen falling marginally and Frankfurt's DAX expected to open up a tad. MSCI's broadest index of Asia-Pacific shares outside Japan was a shade weaker. It had scaled a four-month peak on Friday amid a surge by its global peers. Trade was subdued with many of the region's markets closed for the Lunar New Year. China's financial markets are closed all week, while those in South Korea are shut until Thursday. Hong Kong's stock exchange closed at midday, with the Hang Seng up 0.2%. Australian shares ended half a% higher, as did Japan's Nikkei. US S&P 500 e-mini futures last traded basically flat.

**US stocks ended mixed on Friday, as optimism from a surge in January US job growth was offset by a weaker-than-expected outlook from Amazon.com Inc that battered retail stocks.** The online retail heavyweight slumped 5.38% after its quarterly sales forecast fell short of Wall Street estimates, overshadowing its record sales and profit during the holiday season. Those results put the Nasdaq in negative territory, while retailers Walmart Inc, Macy's Inc and Kohl's Corp each dropped more than 2%. The S&P consumer discretionary index fell 1.77%. Even as the US economy remains on a stable footing, investors are concerned that a slowdown overseas could hurt profit growth, with high-profile companies such as Apple Inc warning of slower demand in China. Data showed China's manufacturing sector shrank in January for the second straight month, heightening risks for global growth amid a trade war with US. The S&P 500 rose 1.6% for the week and the benchmark index is up 8% so far in 2019, but it still remains 8% below its record high close on Sept. 20, 2018. The Dow added 1.3% for the week and the Nasdaq gained 1.4%. During Friday's session, Exxon Mobil Corp and Chevron Corp jumped more than 3% apiece after the oil majors reported better-than-expected quarterly profits, boosting the Dow Jones Industrials. The S&P energy index rallied 1.83%, also helped by higher oil prices. Cigna Corp slid 2.88% lower after the health insurer forecast 2019 revenue and earnings below estimates.

**Most Gulf stock markets ended lower on Sunday. Dubai index fell sharply dragged down by property stocks.** The emirate's largest listed developer, Emaar Properties, slid 3.3%, Emaar Malls dropped 4.5%, and DAMAC properties fell 2.3%. Dubai's weak real estate market has been a big drag for property shares this year. Prices have been falling QoQ almost continually since the start of 2017, with analysts blaming a glut of properties on the market.

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S&P/TSX	15506.30	-0.22%	8.26%
<b>EUROPE</b>			
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CSI 300 (China)	3247.40	1.43%	7.86%
<b>MENA</b>			
Saudi Arabia	8526.71	-0.39%	8.94%
Abu Dhabi	5075.69	0.61%	3.59%
Dubai	2540.25	-1.06%	0.49%
Qatar	10689.17	-0.29%	3.60%
Oman	4147.11	-0.46%	-4.07%
Egypt	14243.81	0.83%	9.27%
Kuwait	5405.75	-0.45%	2.88%
Bahrain	1396.11	0.34%	4.43%
<b>10-YEAR BONDS</b>			
U.S.	2.6948	0.0106	0.0106
Germany	0.1700	0.0040	-0.0720
U.K.	1.2480	0.0290	-0.0290
France	0.5760	0.0030	-0.1340
Australia	2.2310	0.0250	-0.0870
Japan	-0.0080	0.0040	-0.0110

### Major Company News

- Board of Goldman Sachs said on Friday it is withholding a bonus worth at least \$7m from former CEO Blankfein until investigations into the bank's involvement in 1MDB scandal are resolved.
- Goldman Sachs is among the investors in a \$20 million fundraising for financial technology firm Bud, the two companies said on Monday.
- Starboard Value has taken a stake in Bristol-Myers Squibb, the pharmaceutical giant that agreed to acquire Celgene Corp. in a record \$74 billion deal last month (Bloomberg sources)
- GM said on Saturday it is negotiating "feasibility conditions" to invest 10 bn reais (\$2.73 bn) in Brazil from 2020 to 2024, after warning last month that new investments would depend on returning to profit.
- Toyota Motor Corp on Friday reported a 6.6% fall in US vehicle sales for January, hurt by lower demand for its Camry and Prius cars.
- Canada's Imperial Oil Ltd is grinding its rail shipments to a near halt and reviewing a multi-billion-dollar oil sands project, due to uncertainty caused by government-ordered production cuts, CEO said on Friday.
- The US FDA on Friday declined to approve Alkermes Plc's opioid-based depression treatment, citing the need for additional data to prove the effectiveness of the drug.
- International payments network SWIFT said on Saturday it had signed an agreement with Bangladesh's central bank to help it rebuild its infrastructure after hackers used it to steal \$81 million in 2016.
- Panasonic reported a 19% drop in Q3 operating profit and lowered its full-year earnings outlook, even though investment in its battery business with US electric vehicle maker Tesla Inc began to pay off.
- The SoftBank-led Vision Fund is in talks to invest up to \$1.5 billion in Chinese used car trading platform Guazi.com, two people with knowledge of the matter said.

## TOP SELECTED NEWS

### Australia to overhaul regulators after banking inquiry

(Reuters) - Australia's corporate regulators will be subjected to a new oversight body in a shake-up of the banking sector recommended on Monday by a high-powered independent inquiry into financial sector greed and malpractice. The government-appointed inquiry known as a Royal Commission also advised in its landmark report that remuneration structures across the industry be overhauled to remove systemic conflicts of interest. The commission's recommendations were released by the government after 11 months of shocking revelations of financial wrongdoing which wiped A\$60 billion from the country's top finance stocks. "The price paid by our community has been immense and goes beyond just the financial," Australian Treasurer Josh Frydenberg said as the government promised to take action on all the recommendations. "Businesses have been broken, and the emotional stress and personal pain have broken lives." The inquiry's recommendations still need to be approved by parliament.

### Powell Marks one year on the job

(Bloomberg) Jerome Powell this week marks his first year as chairman as the Fed under pressure to deliver on the commitment of his opening day to explain "what we are doing and why we are doing it." Powell hosts a town hall meeting with educators in Washington on Wednesday, a day after he celebrates his anniversary. He does so after a year which witnessed four interest rate hikes and numerous tweets from President Donald Trump. It ended with policy makers delighting markets by signaling they may not tighten monetary policy again for a while. The Feb. 6 appearance -- which will be live streamed to the public who will also be able to join the discussion via social media -- hands Powell a chance to flesh out his reasoning for the dovish turn amid questions over what necessitated such a dramatic shift. "Monetary policy makers may have been spooked by economic and financial developments at their first meeting of the year, but the labor market remains on very sound footing," said Carl Riccadonna, chief US Economist at Bloomberg Economics. "Policy makers will be satisfied to let the data do the heavy lifting, rather than Fed communications, in terms of convincing market participants of the need for further action."

### US corporate earnings trend stokes concern about 2019

(Reuters) US companies are beating analysts' expectations this earnings season, but to a smaller degree than normal, and S&P 500 companies are now barely expected to eke out an increase in profits for the first quarter of 2019. The trend underscores fears about a potential decline in earnings this year, even as stocks just closed their best January in more than three decades, as the S&P 500 rebounded from a swoon late last year. Q4 earnings are estimated to be up 15.5% from a year ago, based on results from nearly half of the S&P 500 companies and forecasts for the rest, according to IBES data from Refinitiv, compared with about 14.5% three weeks ago. That growth clip is historically strong but disappointing on two fronts. The rate is noticeably slower than the three earlier quarters in 2018, when the Trump administration's corporate tax cuts fueled double-digit earnings gains. Estimated profit growth for all of 2018 is at 23.6%, based on Refinitiv's data.

### Merkel, Japan's Abe seek to bolster ties

(Bloomberg) German Chancellor Angela Merkel is set to arrive in Japan for talks with Prime Minister Shinzo Abe on Monday,

as both leaders brace against the UK's increasingly chaotic course toward an exit from the EU. Abe and Merkel, both 64, are two of the most outspoken defenders of the international order being shaken by Brexit and the US-China trade war, as well as President Donald Trump's questioning of decades-old alliances. The summit comes days after a Japan-EU trade agreement came into effect, removing almost all tariffs. Merkel will bring a delegation of top executives from companies including Siemens AG and Bayer AG, and the two leaders are also expected to announce a basic agreement on information security that would allow more defense cooperation, according to Japanese government documents given to reporters. She arrives hours after Nissan Motor Co. announced it had scrapped a plan to build a sport-utility vehicle in the UK, amid uncertainty over the country's future ties with the EU.

### Germany could face budget deficits for years to come

(Reuters) Germany faces a 25 billion euro budget shortfall by 2023, unless it tightens spending, as tax revenues are set to fall and public sector wages are on the rise, Bild newspaper reported, citing an internal government document. The prospect of budget deficits would represent a dramatic deterioration in the finances of Europe's biggest economy, which reported a 11.2 billion euro budget surplus last year. The warning came in a report prepared by FM Olaf Scholz to his ministerial colleagues as they prepare for a regular budget planning discussion. Trade tensions between China and the US and the possible impact of a disorderly British exit from the EU have already prompted Germany to slash its growth forecast for this year to 1% as a decade-long boom in Europe's economic powerhouse draws to a close. In this tougher environment, a lower tax take will tear a 5 billion euro hole in the budget each year, Bild reported. A 25 billion euro shortfall would mean a budget deficit of less than 1% of Germany's current gross domestic product.

### Maduro's bid to fly 20-ton gold pile out is blocked

(Bloomberg) The embattled Nicolas Maduro regime halted plans to ship 20 tons of Venezuelan gold overseas as a growing international push to ring-fence the country's dwindling hard assets unnerved those handling the transaction, according to a person with direct knowledge of the matter. The gold bars, which are worth about \$850 million, had been weighed and separated in the central bank's vaults for transportation, but will not be sent out anytime soon, the person said. The bank has suddenly transformed into a microcosm of the crisis: Some staffers, fearful of getting ensnared in US sanctions and worn down by the crippling economic collapse, have begun to disregard orders, prompting senior managers loyal to Maduro to oust them. The blocking of the 20-ton shipment comes just a week after the BoE denied Maduro's request to withdraw \$1.2 billion of gold stored there.

### S&P cuts Pakistan's credit rating to 'B-' from 'B'

(Reuters) S&P Global Ratings on Monday lowered Pakistan's sovereign credit rating one notch to 'B-' from 'B', citing diminished growth prospects and elevated external and fiscal stresses. In S&P's system, B- is six steps below an investment grade rating. S&P maintained Pakistan's rating outlook at "stable", adding that it reflects expectations the country will secure sufficient financing to meet its external obligations over the next 12 months, and that neither external nor fiscal metrics will deteriorate well beyond the current projections. Pakistan is set to receive a \$3 billion loan package from the UAE in-order to help bridge a yawning current account deficit.



Monday, February 04, 2019

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