

# GLOBAL MARKETS

Tuesday, February 05, 2019

## Markets in brief

- U.S. dollar continued to trade firm as market risk appetite rose giving a boost to treasury yields.
- Australian dollar recovered from earlier losses as the RBA statement sounded less dovish than the markets had wagered on. Aussie had earlier weakened after a report showed retail sales unexpectedly dropped in December
- U.S. stocks jumped yesterday on sustained trade talks optimism.

## RBA ... on hold and cautious

Australia's central bank left its cash rate at 1.5% on Tuesday, a widely expected decision given policy makers have been signaling a steady outlook for some time. RBA struck a slightly more cautious tone for growth next year and lowered its key forecasts, but said further progress in reducing unemployment and having inflation return to target is expected. Rates have now been on hold at the record low for 30 months straight, but financial markets are predicting the next rate move is more likely to be a cut than a hike as declining house prices impact on household spending. RBA governor Philip Lowe said growth in household income had been low over recent years, but was expected to pick up and support household spending.

## May continuing her Brexit efforts

Theresa May travels to Northern Ireland today for two days of Brexit talks. She asked leaders at 54 multinational firms to help persuade the EU to compromise on the Irish backstop, the FT reported. In any case, the split won't be delayed via an extension of Article 50, Transport Secretary Chris Grayling told the Telegraph. British consumer outlays recovered slightly in January, though some of that may have been pre-Brexit hoarding of essential goods.

## Trump closer to name new World Bank chief

The Trump administration has notified World Bank shareholders that President Donald Trump intends to pick senior Treasury Department official David Malpass as the U.S. nominee to lead the development lender, people familiar with the decision said on Monday. The nomination of Malpass would put a Trump loyalist and a skeptic of multilateral institutions in line to lead the World Bank, which committed nearly \$64 billion to developing countries in the year ended June 30, 2018. Politico, which first reported the decision, said it would be announced on Wednesday, citing unidentified administration officials (Reuters)

## Trump meeting Powell

Trump and Fed Chairman Jerome Powell dined at the White House on Monday in their first meeting after months in which Trump lambasted the central bank for raising interest rates and, in the president's view, endangering the economy's growth. The dinner, which included Treasury Secretary Steven Mnuchin and Vice chair Richard Clarida, follows a Fed meeting last week at which the central bank said, in fact, that further rate hikes were on hold for now - a step Powell and others said was based on recent economic developments, not the president's public tirades against the Fed.

## Government shutdown might return

Congress has only a few days left to come up with an agreement on border security spending to prevent a government shutdown and may yet see the process upended once President Donald Trump delivers his State of the Union address on Tuesday. Trump in recent days has repeatedly declared the negotiations a waste of time and said Feb. 1 that his speech to a joint session of Congress would reveal more of his own plans. He suggested that might include a politically and legally fraught emergency declaration to circumvent Congress to begin building a border wall.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1424	-0.12%
GBP/\$	1.3041	0.03%
AUD /\$	0.7260	0.47%
NZD/\$	0.6899	0.04%
\$/JPY	109.86	0.03%
\$/CAD	1.3111	-0.01%
\$/CHF	0.9988	-0.10%
Gold \$	1313.81	0.12%
Silver \$	15.91	0.25%
Platinum \$	823.01	0.29%
WTI \$	54.75	0.35%
BRENT \$	62.63	0.19%
<b>AMERICA</b>		
DOW JONES	25239.37	0.70%
S&P 500	2724.87	0.68%
NASDAQ	7347.54	1.15%
<b>EUROPE</b>		
STXE 600	359.92	0.06%
CAC 40	5000.19	-0.38%
DAX	11176.58	-0.04%
<b>ASIA PACIFIC</b>		
S&P/ASX 200	6005.92	1.95%
NIKKEI 225	20844.45	-0.19%
CSI 300 (China)	3247.40	1.43%
<b>MENA</b>		
Saudi Arabia	8536.12	0.18%
Dubai	2529.18	-0.44%
Qatar	10727.53	0.36%
<b>BONDS</b>		
U.S. 10-year	2.7217	0.0000
German Bund 10-year	0.1760	0.0000
AU 10-year	2.2460	0.0002
<b>BEIRUT S.E.</b>		
SOLIDERE - A	6.52	-2.83%
SOLIDERE - B	6.52	-0.31%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.64	-
BLOM BANK	9.00	-0.55%
BYBLOS BANK	1.36	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

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## FX & COMMODITIES

**The US dollar held on to recent gains against its major peers on Tuesday, supported by a recovery in investors' risk appetite, which gave an overnight boost to US yields.** The dollar index, which measures the greenback against a basket of six key rivals, was barely changed at 95.8873 after gaining for three straight sessions. Trading was likely to remain subdued in Asia with many markets across the region closed for Lunar New Year holidays for much of the week. The index rose 0.7% after dipping last week below its 200-day moving average for the first time since early January 2018. It gained as Treasury yields rose with that of the 10-year jumping 9 basis points over the past two sessions. Yields have climbed after MSCI's gauge of global stocks hit a two-month high on Monday as optimism over recently concluded US-China trade talks helped send US technology and industrial shares higher. The euro was little lower at \$1.1424, off 3-week high of \$1.15145 set on Thursday. Against the Japanese yen, the dollar rose a tad to 109.86 yen. It had risen above 110 yen for the first time since Dec. 31 overnight.

**The Australian dollar rose, reversing earlier losses, after the Reserve Bank of Australia (RBA) held rates at record lows at its first meeting of the year but sounded less dovish than expected.** RBA struck a slightly more cautious tone for growth next year and lowered its key forecasts, but said further progress in reducing unemployment and having inflation return to target is expected. Aussie had earlier weakened after a report showed retail sales unexpectedly dropped in December. The Aussie was last up 0.47% at \$0.7260. It had traded in negative territory during most of the session after retail sales for December came in weaker than expected. Some market players are still expecting a rate cut later this year due to mounting signs of economic weakness.

**The British pound was flat after seesawing during the previous session on uncertainty over the way Britain will leave the EU.** In late Monday trade, sterling gave up gains made earlier in the day after a newspaper report said that goods shipped to Britain from the EU could be waved through without checks in the event of a "no-deal" Brexit.

**US oil prices inched up on Tuesday, buoyed by expectations of tightening global supply due to US sanctions on Venezuela and production cuts led by OPEC.** Analysts said that US sanctions on Venezuela had focused market attention on tighter global supplies. The sanctions will sharply limit oil transactions between Venezuela and other countries and are similar to but slightly less extensive than those imposed on Iran last year, experts said on Friday after looking at details posted by the Treasury Department.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	95.873	0.02%	-0.31%
EUR/\$	1.1424	-0.12%	-0.38%
GBP/\$	1.3041	0.03%	2.25%
AUD /\$	0.7260	0.47%	2.99%
NZD/\$	0.6899	0.04%	2.68%
\$/JPY	109.86	0.03%	-0.15%
\$/CAD	1.3111	-0.01%	4.01%
\$/CHF	0.9988	-0.10%	-1.67%
\$/SEK	9.1114	-0.10%	-2.83%
\$/NOK	8.4662	-0.06%	2.06%
\$/DKK	6.5346	-0.12%	-0.36%
\$/TRY	5.2139	0.07%	1.45%
EUR/GBP	0.8760	0.16%	2.62%
EUR/JPY	125.52	0.14%	0.25%
EUR/CHF	1.1411	0.02%	-1.36%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1313.81	0.12%	2.44%
Silver Spot \$/Oz	15.91	0.25%	2.66%
Platinum Spot \$/Oz	823.01	0.29%	3.44%
Palladium Spot \$/Oz	1365.03	-0.07%	8.18%
COPPER \$/lb	281.10	0.59%	6.84%
WTI \$/bbl	54.75	0.35%	20.57%
BRENT \$/bbl	62.63	0.19%	16.41%

### In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
		China and NZ Holiday		
EUR	11:00	Eurozone Final Services PMI	50.8	50.8
GBP	11:30	UK Services PMI	51.1	51.2
EUR	12:00	Eurozone Retail Sales MoM	-1.50%	0.60%
USD	16:45	US Final Services PMI	54.2	54.2
USD	17:00	US ISM Non-Manufacturing PMI	57.2	57.6

**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

Tuesday, February 05, 2019

## STOCKS & BONDS

**Asian stocks extended gains on Tuesday as overnight strength on Wall Street and the Fed's cautious turn underpinned appetite for riskier assets.** MSCI's broadest index of Asia-Pacific shares outside Japan advanced 0.5% and hovered near its four-month high marked on Friday. Japan's Nikkei average marked its highest level in seven weeks at one point but finished the day down 0.2%. Australian shares jumped 2%, with long-battered financials surging on short-covering after a special government-appointed inquiry excoriated Australia's financial sector for misconduct but left the structure of the country's powerful banks in place. Elsewhere in Asia, trade was light, with markets in greater China, Taiwan, South Korea, Singapore and Indonesia all closed for the Lunar New Year.

**US stocks gained on Monday, with all three major indexes closing near session highs as sustained optimism on the prospects for US-China trade relations propelled technology shares.** The S&P 500 index and the Nasdaq both closed above their 100-day moving averages for the first time since October. Shares of Apple Inc and Microsoft Corp each rose 2.7% and were the top boosts to the benchmark S&P 500 index and the Nasdaq. Apple and Microsoft's gains helped S&P 500 technology stocks gain 1.6%, the greatest rise among the benchmark index's major sectors. Yet in after-hours trading, Alphabet shares fell more than 2%. While its Q4 revenue and profit beat Wall Street's expectations, spending grew more than expected. FAANG earnings have been a mixed bag. Shares of Apple and Facebook Inc rose after those companies' quarterly results, while downbeat forecasts from Netflix Inc and Amazon.com Inc dragged down those companies' shares. S&P 500 industrial stocks, another trade-sensitive group, posted the second-highest percentage gain among sectors, advancing 1.3%. After having dropped nearly 20% below its record Sept. 20 close, the S&P 500 is now less than 8% away from reaching that level. US stocks have been lifted so far this year by the Fed's resolve to be "patient" with further interest rate hikes in addition to signs of progress in US-China trade talks. Earnings season has also been relatively positive. Analyst estimates for Q4 profit growth are now at 15.4%. The profit growth forecast for Q1 2019, however, is much lower at 0.5%. Allergan Plc shares dropped 3.8% after the FDA approved Evolus Inc's cheaper version of blockbuster Botox. Evolus shares jumped 11.8%. Shares of Ultimate Software Group Inc surged 19.7% after the HR software provider announced that it had agreed to be acquired in a deal valued at about \$11 billion.

**Most Gulf stock markets ended up yesterday.** Abu Dhabi index rose sharply, buoyed by First Abu Dhabi Bank after it proposed an increase in the foreign ownership limit. Egypt's blue-chip index was lifted by its top lender Commercial International Bank.

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Dubai	2529.18	-0.44%	0.28%
Qatar	10727.53	0.36%	3.76%
Oman	4166.30	0.46%	-3.29%
Egypt	14366.06	0.86%	10.20%
Kuwait	5426.45	0.38%	3.19%
Bahrain	1397.55	0.10%	4.78%
<b>10-YEAR BONDS</b>			
U.S.	2.7217	-0.0018	0.0375
Germany	0.1760	-0.0010	-0.0660
U.K.	1.2770	0.0290	0.0000
France	0.5820	-0.0020	-0.1280
Australia	2.2460	0.0150	-0.0720
Japan	-0.0100	-0.0010	-0.0130

### Major Company News

- BP on Tuesday reported a 65% rise in Q4 profit, beating forecasts, as oil and gas output rose sharply following the acquisition of BHP's US shale assets.
- General Electric Co said on Monday it expects to close the merger of its transportation business with Wabtec Corp on Feb. 25 and set a record date for distribution of shares.
- Johnson & Johnson's DePuy Orthopaedics unit is in settlement talks to resolve the bulk of individual lawsuits alleging the company's metal-on-metal Pinnacle hip implants were defective and caused severe injuries, a lawyer for the plaintiffs said on Monday.
- Sensor specialist AMS expects revenue in Q1 2019 to fall to \$350-390 million amid continued weak smartphone demand and "characteristic first-quarter consumer market seasonality", it said on Tuesday.
- GM on Monday said it was starting to hand pink slips to about 4,000 salaried workers in the latest round of a restructuring announced in late November that will ultimately shrink its white-collar workforce in North America by 15% out of 54,000.
- Panasonic shares fell almost 6.5% on Tuesday after the electric vehicle (EV) battery maker reported a drop in quarterly earnings and cut its outlook, just as EV partner Tesla branched out in battery tech.
- Gilead Sciences reported Q4 profit that fell short of estimates, sending shares lower, as sales of its flagship hepatitis C treatments continued to slide and it recorded one-time charges, and the company.
- T-Mobile US Inc told the US Federal Communications Commission on Monday it would not increase prices for three years, with few exceptions, if it gets approval to buy rival Sprint Corp for \$26 billion.
- The world's biggest fibre cement maker, James Hardie Industries PLC adjusted its annual profit forecast range a little higher on Tuesday, even as a US housing slowdown knocked 10% off quarterly profit.

## TOP SELECTED NEWS

### Merkel sets out condition for Huawei participation in 5G

(Reuters) Merkel said on Tuesday Germany needs guarantees that China's Huawei Technologies will not hand over data to the Chinese state before the telecoms equipment supplier can participate in building its 5G network. Merkel, on a visit to Japan, said that due to security concerns, it was important to speak to the Chinese government so "the company doesn't just simply hand the data to the state". She told students in a discussion at Keio University that security was important if firms wanted to work in Germany and it must be made clear that the Chinese state cannot access all the data in Chinese products. Huawei faces international scrutiny over its ties with the Chinese government and suspicion that Beijing could use Huawei's technology for spying, which the company denies. The German government has yet to reach a common stance on whether to follow other countries in excluding Huawei from its market on national security grounds.

### Trump inaugural committee said to be subpoenaed

(Bloomberg) Donald Trump's inaugural committee is under scrutiny by federal prosecutors in New York, adding new legal woes for the president and his allies that stretch beyond the probe led by Special Counsel Robert Mueller. The committee, which disclosed raising a record-setting \$107 million to celebrate his ascendance to the presidency, was subpoenaed by federal prosecutors in New York, according to a person familiar with the matter.

### Alphabet profit margins slide as Google costs up

(Bloomberg) Google parent Alphabet Inc. reported thinner profit margins as the internet giant spent heavily to expand its cloud and YouTube businesses. The company's shares slipped in late trading. Google's Q4 capital expenditures jumped 80% to \$6.85 billion. The company's operating margin, a closely watched measure of profitability, was 21%, down from 24%. Alphabet is relying on its ad business to support sales and profit growth as it develops new offerings such as cloud services and consumer hardware. The company's higher-growth businesses, which also include YouTube, are less profitable than the original Google desktop search service. "Capex is growing at a sizable clip and the primary driver continues to be investing in technical infrastructure to support growth," Alphabet Chief Financial Officer Ruth Porat said in an interview with Bloomberg TV. "By that we mean data centers and machines. This reflects our outlook for global growth in ads, search, YouTube and cloud."

### Deutsche Bank may cut bonuses

(Bloomberg) Deutsche Bank AG may cut bonuses if its revenue fails to grow, Chief Financial Officer James von Moltke said on Monday. Variable compensation is one of several areas the lender has earmarked for further possible savings if necessary to achieve its profitability target, von Moltke said on a conference call with fixed-income investors. The reductions could be made if a challenging market environment makes it impossible for the bank to grow its top line, he indicated. Deutsche Bank has seen eight consecutive quarters of falling revenue amid an effort by Chief Executive Officer Christian Sewing to boost profitability. While Sewing cut costs more than expected last year, that was outpaced by a fall in revenue, making it the number one concern for analysts and investors. The bank expects to see growth in 2019 but that depends on markets being relatively benign, it said on Friday.

### Gross retirement marks sunset of bond-star era

(Bloomberg) Bill Gross isn't just retiring from money management. He's marking the twilight of an era. Gross, 74, announced Monday that he was ending his 47-year career managing investments, leaving the daily grind as his Janus Henderson Global Unconstrained Bond Fund bleeds assets and barely breaks even after fees. At Janus, Gross was given the freedom to do anything he wanted, but his fund ended up not doing much of anything. For investors, his exit comes as the decades-long bull market in bonds, which fueled his success, is waning and interest rates climb off the post-crisis floor. For the industry, Gross's recent struggles show how hard it's become for individual managers to beat the indexes, algorithms and sprawling trading teams that oversee today's portfolios.

### Ultimate software to go private in \$11 billion cash deal

(Bloomberg) Ultimate Software Group said it agreed to be acquired by an investor group led by Hellman & Friedman Capital Partners in a deal valued at about \$11 billion. Shareholders of Ultimate Software, which makes cloud-based human resources management software, will receive \$331.50 per share in cash, the company said in a statement Monday. The terms represent a premium of about 32% over the company's average stock price during the 30 days up to Feb. 1. Ultimate shares rose 20% in New York trading.

### US, Qatar energy ministers to announce Qatari investment in US: Energy Department

(Reuters) The US energy secretary, his Qatari counterpart and representatives of Exxon Mobil and the Golden Pass liquefied natural gas facility will announce a Qatari investment in the US on Tuesday, the Department of Energy said on Monday. No other details were immediately available. But Reuters reported on Feb. 1 that Qatar Petroleum and Exxon Mobil were expected to announce plans this week to proceed with a \$10 billion project expanding the Golden Pass export facility in Texas. ConocoPhillips, the third partner in the existing LNG export terminal, plans to sell its 12.4% stake and does not plan to participate in the expansion, Reuters reported, citing three people familiar with the transaction. Golden Pass LNG started as a receiving and regasification facility in Sabine Pass, Texas able to handle up to 2 billion cubic feet of natural gas imports per day. But as US gas production has soared, the demand for export capacity has risen. The facility expansion is part of Qatar Petroleum's plans to invest about \$20 billion in the US as the firm seeks to increase its overseas oil and gas footprint.

### Abu Dhabi's Mubadala sells 34.9 million shares in US chipmaker AMD

(Reuters) Abu Dhabi's Mubadala Investment Co has sold 34.9 million common equity shares in Advanced Micro Devices (AMD), a company spokesperson said on Tuesday, and plans to convert 75 million warrants in the US chipmaker. Mubadala did not disclose the sale price; but the market value of the 34.9 million shares was about \$842 million based on Monday's closing price. The Abu Dhabi state fund, which has stakes in General Electric and private equity firm Carlyle Group, first invested in AMD in 2007. AMD is a supplier of standard computer microprocessors, and rivals Intel Corp and Nvidia Corp. Mubadala will continue to be a major shareholder in the global semiconductor firm after the transaction, with ownership of about 6.9%, once the 75 million warrants are converted to common equity shares, the company said.



Tuesday, February 05, 2019

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