

GLOBAL MARKETS

Thursday, February 07, 2019

Markets in brief

- British pound steadied before BoE's policy decision and inflation report at 14:00 LT; Gov. Carney to speak at 14:30 LT.
- Gold held near 1-week lows amid a stronger U.S. dollar, but worries over slowing global economic growth and the specter of another U.S. government shutdown kept the safe-haven metal above the key \$1,300-level.
- Australian dollar continued to feel the pressure from RBA Lowe's dovish comments.
- NZ dollar sank to a 2-week low after disappointing jobs data.
- Asian stocks traded near 4-month highs with Australian index outperforming.
- U.S. stocks dropped yesterday but remained close to 2-month highs.
- European shares inched up to touch 12-week highs on Wednesday.

Brexit to weigh on BoE's decision today

The Bank of England looks set to trim its forecasts for Britain's already sluggish growth on Thursday, reflecting the approach of a still uncertain Brexit in just 50 days' time and a slowdown in many of the world's big economies. But the BoE is also likely to strike a contrasting note to the U.S. Fed by reminding investors that it still intends to raise interest rates, if Britain can avoid the shock of an abrupt no-deal departure from the EU. With a transition deal still not in the bag, the BoE's rate-setters are expected to vote unanimously to keep their benchmark borrowing rate at 0.75%, according to forecasts.

May's job getting harder

Theresa May heads to Brussels on Thursday seeking legally-binding changes to the Brexit deal she reached last year with her EU counterparts, with little sign the two sides are close to a compromise. A second vote on May's Brexit deal may be pushed back, as she's unlikely to bring a revised divorce pact back to Parliament by Feb. 13, a person familiar said (Bloomberg). The vote could occur in the Feb. 25 week, the Telegraph reported. The EU and Ireland said the Brexit deal "is not open for renegotiation," tying the PM's hands before she meets with Jean-Claude Juncker in Brussels today.

Trump nominating World Bank leader

U.S. President said on Wednesday that the World Bank Group should be led by U.S. Treasury official David Malpass, a Trump loyalist and critic of multilateral institutions who has vowed to pursue "pro-growth" reforms at the development lender. Trump's nomination of Malpass, the Treasury Dpt's top diplomat, is subject to a vote by the World Bank's executive board and could draw challengers from some of its 188 other shareholding countries.

EC may slash Italy's forecasts

The European Commission is expected to slash the Italian economic growth estimate for this year when it releases new forecasts later Thursday, major newspapers including Il Messaggero and la Repubblica reported. The forecasts will follow separate IMF criticism the day before that the Italian government is falling short on needed reforms. Italy's leadership could destroy market confidence in the nation with dangerous spillovers for the global economy if risks mount, the IMF has warned.

U.S. trade deficit with China falling for 1st time in 7 months

The U.S. trade deficit fell for the first time in six months in November as cheaper oil and higher domestic petroleum production helped to curb the country's import bill, leading economists to boost their economic growth estimates for Q4. The U.S. goods trade deficit with China fell for the first time in 7 months in Nov., falling 7.4% from previous month to \$35.36 billion.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1356	-0.05%
GBP/\$	1.2928	-0.03%
AUD /\$	0.7099	-0.08%
NZD/\$	0.6751	-0.37%
\$/JPY	109.92	0.05%
\$/CAD	1.3243	-0.22%
\$/CHF	1.0024	-0.03%
Gold \$	1304.48	-0.16%
Silver \$	15.69	0.08%
Platinum \$	804.46	-0.24%
WTI \$	53.66	-0.65%
BRENT \$	62.36	-0.53%
AMERICA		
DOW JONES	25390.30	-0.08%
S&P 500	2731.61	-0.22%
NASDAQ	7375.28	-0.36%
EUROPE		
STXE 600	365.52	0.15%
CAC 40	5079.05	-0.08%
DAX	11324.72	-0.38%
ASIA PACIFIC		
S&P/ASX 200	6092.46	1.10%
NIKKEI 225	20751.28	-0.59%
CSI 300 (China)	3247.40	1.43%
MENA		
Saudi Arabia	8633.33	0.11%
Dubai	2557.01	0.56%
Qatar	10683.94	-0.29%
BONDS		
U.S. 10-year	2.6859	-0.0001
German Bund 10-year	0.1700	0.0001
AU 10-year	2.1490	-0.0003
BEIRUT S.E.		
SOLIDERE - A	6.36	-1.24%
SOLIDERE - B	6.30	-1.10%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.64	-
BLOM BANK	9.00	-
BYBLOS BANK	1.35	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

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FX & COMMODITIES

The Australian dollar languished near a two-week low on Thursday on rising bets that interest rates would most likely come down this year amid heightened growth risks at home and abroad. Australia's central bank on Wednesday opened the door to a possible rate cut as it acknowledged growing economic risks in a remarkable shift from its long-standing tightening bias that sent the Aussie dollar sliding. The Aussie hovered near a more than one-week low at \$0.709, having lost 1.8% in the previous session, its largest %age decline in more than a year.

The New Zealand dollar was down 0.37% at \$0.6751, after easing 0.1% earlier following weaker-than-expected unemployment data on Thursday. On Wednesday, the kiwi tracked the Aussie dollar's fall, losing 1.72%, its steepest %age decline since Aug. 9, 2018.

The yen was flat against the greenback at 109.92. The dollar has gained around one% versus the Japanese currency so far this month as global risk sentiment improved and led to a modest rally in global equities. Japanese demand for foreign bonds has been another reason for the strength in dollar/yen. The dollar index, a gauge of its value versus six major peers was steady at 96.35, hovering close to its two-week high. The dollar index has gained for three consecutive sessions, mainly due to a weaker euro, which constitutes around 58% of the index.

The euro was flat at \$1.1356, having lost 0.45% of its value on Wednesday. The euro has lost around 1.3% over the last week as investors bet the European Central Bank will keep monetary policy accommodative on weaker-than-expected growth and low inflation in the common area.

The British pound was marginally lower at \$1.2928. The pound has weakened by 1.3% in February due to Brexit woes. The UK is on course to leave the EU on March 29 without a deal unless British PM Theresa May can convince the bloc to reopen the divorce agreement she reached in November and then sell it to skeptical British lawmakers. The BoE is scheduled to meet later on Thursday and is widely expected to keep interest rates unchanged.

The Canadian dollar weakened by 0.22% versus the greenback to C\$1.3243. On Wednesday, Timothy Lane, deputy governor of the Bank of Canada, said uncertainty over US trade policies is holding back Canadian business investment despite strong economic fundamentals, which has dampened sentiment towards the loonie over the last 24 hours.

Oil prices slipped on Thursday after US crude inventories rose and the country's production held at record levels, but OPEC-led supply cuts and Washington's sanctions against Venezuela supported markets. US crude oil inventories climbed by 1.3 million barrels in the week that ended Feb. 1 to 447.21 million barrels, data from the EIA showed on Wednesday.

	LAST	1D	YTD
CURRENCIES			
DXY	96.424	0.04%	0.26%
EUR/\$	1.1356	-0.05%	-0.97%
GBP/\$	1.2928	-0.03%	1.36%
AUD /\$	0.7099	-0.08%	0.71%
NZD/\$	0.6751	-0.37%	0.48%
\$/JPY	109.92	0.05%	-0.21%
\$/CAD	1.3243	-0.22%	2.98%
\$/CHF	1.0024	-0.03%	-2.03%
\$/SEK	9.2124	-0.08%	-3.90%
\$/NOK	8.5523	-0.11%	1.04%
\$/DKK	6.5733	-0.06%	-0.94%
\$/TRY	5.2317	-0.30%	1.10%
EUR/GBP	0.8784	0.03%	2.34%
EUR/JPY	124.84	0.09%	0.79%
EUR/CHF	1.1384	0.07%	-1.13%
COMMODITIES			
Gold Spot \$/Oz	1304.48	-0.16%	1.71%
Silver Spot \$/Oz	15.69	0.08%	1.23%
Platinum Spot \$/Oz	804.46	-0.24%	1.11%
Palladium Spot \$/Oz	1375.81	-0.01%	9.04%
COPPER \$/lb	282.85	-0.28%	7.51%
WTI \$/bbl	53.66	-0.65%	18.17%
BRENT \$/bbl	62.36	-0.53%	15.91%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
		China Holiday		
EUR	12:00	EU Economic Forecasts		
GBP	14:00	UK BoE Decision	0-0-9	0-0-9
GBP	14:00	BoE Inflation Report		
GBP	14:30	BoE Carney speaks		
USD	15:30	US Initial Jobless Claims	220k	253k

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

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STOCKS & BONDS

Asian share markets hovered near four-month highs on Thursday with Australian equities the star performer. Trading was still light overall with China on holiday and no major economic data on the diary. MSCI's broadest index of Asia-Pacific shares outside Japan added 0.1% as it rose to its highest since early October. The index has risen steadily since early January as the US Fed changed its tune on policy for further rate rises. Australia's benchmark stock index jumped 1.1% amid expectations of easy monetary policy after the country's central bank chief shifted away from his previous tightening bias. Japan's Nikkei slipped 0.59%. The next major trigger for markets will be any breakthrough in the US-Sino tariff talks when the two sides meet in Beijing next week.

US stocks edged lower on Wednesday as videogame makers gave disappointing revenue forecasts and investors awaited developments on US-China trade relations. The benchmark S&P 500 and the Nasdaq were weighed by declines in shares of Electronic Arts, which tumbled 13.3% after the videogame publisher forecast full-year revenue below Wall Street estimates. The sharp drop pulled down shares of rival videogame publisher Activision Blizzard Inc, which fell 10.1%. Shares of industry peer Take-Two Interactive Software Inc also dropped sharply, 13.8%, after the company's similarly underwhelming forecast. The slump in videogame stocks contributed to a 1.5% decline in the S&P 500 communication services sector, the largest drop among the S&P's major sectors. Despite the fall, Wall Street's indexes remained near two-month highs. A 7.3% gain in the S&P 500 would put the index above its record closing September high. Investors cited a void of catalysts for market gains. US Treasury Sec Mnuchin said trade talks with China last week were "very productive" and confirmed that he and other officials will travel to Beijing for the next round of meetings. Though the major indexes drooped, the Philadelphia SE Semiconductor Index advanced 2.6%. Shares of Apple supplier Skyworks Solutions jumped 11.5% after the company announced \$2 billion in stock buybacks, while shares of Microchip Technology rose 7.3% after the company suggested the chipmaker industry was close to recovery from its recent downturn. Shares of Capri Holdings, formerly Michael Kors, climbed 11.3% after the fashion company posted a better-than-expected quarterly profit and raised its revenue forecast. Anadarko Petroleum Corp shares slid 7.4% after the oil and gas producer's Q4 profit missed estimates.

Most Gulf stock markets rose yesterday. Dubai led gains on the back of its financial stocks. Qatar was pulled down by bank shares.

US Treasury yields slipped for a second straight session on Wednesday, trading in narrow ranges, as investors continued to factor in the Fed's dovish bent on interest rates, while concerns about slowing growth in Germany added pressure.

Long-dated Italian government bond yields rose to 3-week highs on Wednesday as investors made space for a new 30-year syndicated debt issue that attracted a hefty 41 billion euros of orders. That was the highest-ever demand for an Italian syndicated issue and represented a notable turnaround from the sell-off that hit the country's debt last year when a eurosceptic, anti-austerity government took office. This had prompted foreign investors to dump more than 77 billion euros in Italian debt between May and November.

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AMERICA			
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S&P/TSX	15712.31	0.06%	9.70%
EUROPE			
STXE 600	365.52	0.15%	8.25%
FTSE 100	7173.09	-0.06%	6.61%
CAC 40	5079.05	-0.08%	7.36%
DAX	11324.72	-0.38%	7.25%
ASIA PACIFIC			
S&P/ASX 200	6092.46	1.10%	7.90%
NIKKEI 225	20751.28	-0.59%	3.68%
TOPIX	1569.03	-0.83%	5.02%
CSI 300 (China)	3247.40	1.43%	7.86%
MENA			
Saudi Arabia	8633.33	0.11%	10.31%
Abu Dhabi	5143.24	0.12%	4.00%
Dubai	2557.01	0.56%	0.23%
Qatar	10683.94	-0.29%	3.29%
Oman	4160.91	-0.20%	-3.61%
Egypt	14766.59	0.23%	13.28%
Kuwait	5439.82	-0.22%	3.59%
Bahrain	1408.81	0.37%	5.93%
10-YEAR BONDS			
U.S.	2.6859	-0.0087	0.0017
Germany	0.1700	0.0080	-0.0720
U.K.	1.2160	-0.0160	-0.0610
France	0.5770	-0.0040	-0.1330
Australia	2.1490	-0.0340	-0.1690
Japan	-0.0110	0.0020	-0.0140

Major Company News

- SoftBank Group shares jumped 17% on Thursday, adding \$14 billion to the Japanese tech investment giant's market value, after it unveiled a record share buyback and a surge in quarterly operating profit.
- GoPro reported its first profit in five quarters on Wednesday and topped estimates for revenue, as it cut costs and saw strong demand for the latest action cameras from its flagship HERO line.
- Prudential Financial on Wednesday missed analysts' estimates for Q4 results, reporting a 12% drop in adjusted quarterly operating income.
- Canadian fertilizer maker Nutrien Ltd forecast 2019 profit below analysts' estimates, citing continued pressure on crop prices from record 2018 yields and the impact of the US-China trade dispute.
- Chipotle Mexican Grill Inc reported quarterly same-store sales above Wall Street forecasts driven by higher customer transactions, sending its shares up 5% in after-hours trading on Wednesday.
- US life insurer MetLife Inc missed analysts' estimate for Q4 revenue on Wednesday, hit by weaker underwriting fees in its Asia and Europe, the Middle East and Africa (EMEA) markets.
- FireEye beat analysts' estimates for quarterly revenue and reported a smaller quarterly loss on Wednesday, as the cybersecurity firm's shift to a subscription-based model and cost-cutting efforts paid off.
- Zynga Inc on Wednesday forecast quarterly bookings above analysts' estimates after beating expectations for Q4, suggesting that the game developer was benefiting from its mobile push.
- Humana Inc's full-year profit forecast came in shy of analysts' estimates on Wednesday as its Medicare Prescription drug plans remained under pressure and said it expects 2019 margins in the fast-growing business to fall short of its own targets.

TOP SELECTED NEWS

Top Democrat expects border deal

(Bloomberg) The top Democrat working on a border-security deal to avoid another government shutdown said lawmakers should be able to reach a bipartisan agreement by the end of this week, even with Trump repeating his demand for a wall. "I expect to meet the Friday deadline," Representative Nita Lowey of New York, chairwoman of the House Appropriations Committee, said Wednesday. House Speaker Nancy Pelosi had said an agreement would need to be reached by then to ensure legislation is passed by Feb. 15, when stopgap government funding expires. Lawmakers and Trump agreed to the temporary measure after a 35-day partial government shutdown resulting from a partisan impasse over wall funding. Republicans offered mixed views on whether a deal can be done by Friday. Senate Appropriations Chairman Richard Shelby of Alabama said he hopes to wrap up negotiations by the end of the week. But Kay Granger of Texas, the top Republican on House Appropriations, said negotiations may go past Friday but be completed in time to avert a shutdown.

Fed balance sheet shrinkage keep rates elevated: study

(Reuters) The shrinkage of the US Fed's balance sheet has played a significant role in exerting upward pressure on borrowing costs as parts of the US economy have shown signs of decelerating, a study from the Kansas City Federal Reserve released on Wednesday showed. The study reflects a growing concern among economists and investors that the Fed's declining holdings of Treasuries and mortgage bonds have caused bank reserves to drain too quickly, exacerbating the effect of the central bank's series of rate increases in 2018. Some analysts have attributed the elevated federal funds rate, or what banks charge each other to borrow excess reserves overnight, on the Fed's balance sheet normalization that began in Q4 of 2017. Bank reserves peaked at \$2.8 trillion in 2014 and have fallen to about \$1.6 trillion. Since the Fed began to shrink its balance sheet, its bond holdings have declined by \$400 bn, while bank reserves have fallen by \$740 bn.

Global thirst for bonds has investors scoop up Italian debt

(Bloomberg) Italy is just the latest major borrower to benefit from searing global demand for sovereign bonds, with investors casting aside concerns about the country's relapse into recession to help the government lock in funding over the next 30 years. Italy's carpe diem sale is allowing it to raise 8 bn euros as investors scramble to lend to some of the world's biggest borrowers, including Japan, the US and Greece. The Italian offering of 2049 securities attracted orders in excess of more than 41 bn euros even as the economic outlook deteriorates for the euro-zone's second-most-indebted country and it faces criticism from the IMF on the need for reforms. The impressive order book for Italy's second syndicated sovereign sale this year follows reported records among neighboring euro-zone nations, and a four-times over-subscription for Greece. Moreover, this sale is helping Italy to front-load its 250 bn-euro fundraising effort this year, ahead of any potential squalls should its economic slowdown present a further challenge to budget projections. The latest sale follows a 10 bn-euro offering of 2035 securities in Jan that garnered 35.5 bn euros in offers.

India central bank surprises with a rate cut

(Reuters) India's central bank on Thursday unexpectedly lowered interest rates and, as anticipated, shifted its stance to "neutral" from "calibrated tightening" to boost a slowing

economy after a sharp fall in the inflation rate. The monetary policy committee (MPC) of the Reserve Bank of India cut the repo rate by 25 basis points to 6.25 percent, as predicted by only 21 of 65 analysts polled by Reuters. Most polled respondents expected the central bank to only change the stance, to neutral. Four of six members of the MPC voted to cut the rates, while all six voted for a change in the stance. "Investment activity is recovering but supported mainly by public spending on infrastructure," the MPC said in a statement. "The need is to strengthen private investment activity and buttress private consumption."

BNP nightmare at Christmas trigger 70% equities drop

(Bloomberg) BNP Paribas SA, the biggest French bank, is reeling from losses at one of its most famed businesses. The Paris-based bank reported a 70% plunge in revenue at its equities unit in Q4, the worst performance since at least 2013 and a stark contrast with gains at its biggest US rivals. The slump came after a chaotic December, during which BNP traders were flummoxed by sharp market moves and a series of US trades that went awry around Christmas and lost tens of millions of dollars. "The guy in charge of the book made bad choices," Chief Operating Officer Philippe Bordenave said, without identifying the individual behind the US derivatives trades. "There is no negligence, no misbehavior at all." The decline at BNP underscored the volatility of equity derivatives. French banks claim an expertise in these lucrative yet complex products, which are now causing headaches across Paris.

SocGen will shrink trading unit, cuts targets

(Bloomberg) Societe Generale SA cut a key profit target and will shrink its markets business after trading revenue plummeted, adding to woes in the French banking industry after BNP reported the steepest decline in equities revenue in years. SocGen will review less profitable fixed-income and currencies activities after a 29% slump in revenue in Q4, while seeking to maintain its position in equities derivatives, it said on Thursday. The Paris-based bank is replacing global markets head Frank Drouet and cutting about 8 bn euros of risk-weighted assets to combat the slump. SocGen follows rivals in slashing forecasts and deepening cuts after a grim quarter for European investment banks because of whipsawing markets. The bank trimmed its return on tangible equity target -- a key performance indicator -- by as much as 2.5 percentage points and said it will make 500 mn euros of cost cuts by 2020.

Volvo Cars feels margin pressure from US-China tariff war

(Reuters) Volvo Cars, owned by China's Geely, reported higher full-year revenue on Thursday, but said its profit margins had slipped and were expected to remain under pressure this year. Carmakers have faced rising costs and pricing pressure in some markets due to a trade war between US and China in 2018 as well as slower demand from Europe and from China, the biggest autos market. Suppliers and automakers have issued new warnings and results misses this year, with Daimler this week reporting a fall in Q4 operating profit. Volvo said its operating profit increased by 0.9% to 14.2 bn Swedish crowns (\$1.5 bn) although its margin fell to 5.6% from 6.7%. This was despite its 2018 revenue rising by 21% to 252.7 bn Swedish crowns. Volvo has been on a growth path under Geely's umbrella, with five straight years of record sales, aided by its steady push into premium automobiles, pitted it against Daimler's Mercedes-Benz and its fellow German rival BMW. The Swedish-based firm postponed plans for a listing last year, citing the adverse impact of the tariff war.

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