

# GLOBAL MARKETS

Wednesday, February 20, 2019

## Markets in brief

- Investors bet that Chinese and U.S. trade negotiators would be able to secure a deal to de-escalate their year-long tariff war. The U.S. was said to ask China to keep the value of its currency stable as part of trade talks.
- Asian stocks advanced to 4 1/2-month highs while the Chinese yuan jumped to its highest since February 4.
- Australian dollar was stronger in early trade, extending gains from Tuesday. It then retreated on weak data. Investors awaited the Jobs Report tomorrow at 2:30 LT.
- U.S. dollar struggled before the release of FOMC minutes today at 21:00 LT.
- Japanese yen was under pressure from weak data and lower safe-haven demand.
- Euro traded little lower after hitting a 2-week high.
- British pound slipped after jumping earlier on Brexit hopes. It hit \$1.3076, a 2-wk high.
- Palladium broke above \$1,500 for the first time due to a prolonged supply deficit.
- Gold rose to a fresh 10-month high benefiting from a pressured dollar.
- Oil prices retreated on surging U.S. supply. However, recent supply cuts by OPEC could provide support.
- U.S. stocks had a modest rise yesterday helped by upbeat corporate results.

## Will the Fed release its January minutes today?

The U.S. Fed said minutes of its January policy meeting would be released on Wednesday as scheduled though its offices in Washington would be closed due to bad weather. Investors will scrutinize the minutes after a dovish statement in January. Fed Chair Powell had said U.S. central bank policy makers would be "patient" after signs of an economic slowdown roiled financial markets in December. Two-year yields, a proxy for market expectations for rate hikes, were 2.5 bps lower, at 2.49%, suggesting investors expect the minutes to reaffirm a slower pace of rate hikes. The gap between 2- and 10-year notes stands at about 14.7 bps, after bottoming out at 9.1 bps in December.

## U.S. seeking a stable yuan

The U.S. is asking China to keep the value of the yuan stable as part of trade negotiations between the world's two largest economies, a move aimed at neutralizing any effort by Beijing to devalue its currency to counter American tariffs, people familiar with the ongoing talks said. Officials from the two countries are discussing how to address currency policy in a "Memorandum of Understanding" that would form the basis of a deal that ultimately will have to be approved by Trump and his Chinese counterpart Xi Jinping, according to several people involved in and briefed on the discussions.

## May continuing her efforts

PM Theresa May is making a last-ditch attempt to save her Brexit deal and prevent Parliament seizing control of the UK's divorce from the EU. May meets Jean-Claude Juncker in Brussels today, and the EC chief is already downplaying expectations of a Brexit breakthrough. "There isn't enough movement for me to be able to expect this to be a discussion with a concrete outcome," he said. That's likely to disappoint the UK PM, whose spokesman said she views the meeting as a "significant" part of her plan to get legally binding changes to the Irish border backstop.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1333	-0.07%
GBP/\$	1.3048	-0.11%
AUD /\$	0.7160	-0.07%
NZD/\$	0.6864	-0.28%
\$/JPY	110.87	-0.22%
\$/CAD	1.3202	0.07%
\$/CHF	1.0019	-0.09%
Gold \$	1341.70	0.06%
Silver \$	16.01	0.09%
Platinum \$	819.95	0.04%
WTI \$	56.16	0.12%
BRENT \$	66.34	-0.17%
<b>AMERICA</b>		
DOW JONES	25891.32	0.03%
S&P 500	2779.76	0.15%
NASDAQ	7486.77	0.19%
<b>EUROPE</b>		
STXE 600	368.97	-0.22%
CAC 40	5160.52	-0.16%
DAX	11309.21	0.09%
<b>ASIA PACIFIC</b>		
S&P/ASX 200	6096.49	-0.17%
NIKKEI 225	21431.49	0.60%
CSI 300 (China)	3449.80	0.30%
<b>MENA</b>		
Saudi Arabia	8516.60	-0.62%
Dubai	2565.85	0.60%
Qatar	9982.25	-0.52%
<b>BONDS</b>		
U.S. 10-year	2.6429	0.0001
German Bund 10-year	0.1050	-0.0001
AU 10-year	2.1000	-0.0004
<b>BEIRUT S.E.</b>		
SOLIDERE - A	6.45	-0.15%
SOLIDERE - B	6.45	-1.98%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.65	-
BLOM BANK	9.01	0.67%
BYBLOS BANK	1.35	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

## FX & COMMODITIES

The Japanese yen fell for a third day as disappointing Japanese trade data added to speculation that the Bank of Japan may consider more stimulus. The Japanese currency, which tends to serve as a safe-haven in times of risk aversion, gave up ground as Tokyo shares climbed to fresh 2-month highs. Governor Haruhiko Kuroda said Tuesday that the central bank may delve into its toolkit again if the yen's movement affect the economy.

The US dollar was capped against its peers on Wednesday on falling US yields and before the Fed's policy meeting minutes, though it managed to gain on the yen as stronger investor risk appetite curbed demand for the Japanese currency. The dollar index was flat at 96.56 after shedding about 0.4% overnight. The benchmark 10-year US Treasury yield fell sharply to an 11-day low on Tuesday. The minutes will be closely watched following a dovish statement at that review. The dollar index rose to a 2-month high last week but demand for the liquid greenback has recently ebbed on optimism that a fresh round of talks between China and the US would help resolve their trade conflict.

The British pound slipped as UK PM Theresa May stakes her Brexit deal on Attorney General Geoffrey Cox, who May sees as one that could gain the trust of pro-Brexit Tories. The pound rallied earlier to a 2-week high of \$1.3076. Sterling had surged more than 1% on Tuesday on hopes that May will make progress in seeking changes to her Brexit deal with the EU.

The onshore Chinese yuan advanced after Bloomberg reported that the US is pressing to secure a pledge from China that it will not devalue its yuan as a part of a trade deal. The yuan gained about 0.51% to 6.7242/dollar, its strongest since Feb 1.

Australia dollar fell from a 2-week high after wage data missed estimates and as traders positioned before Thursday's monthly jobs data. Losses were tempered by gains versus the kiwi. Aussie dropped after climbing to 0.7177 in early trade, highest since Feb. 6. Wage price index was 0.5% q/q in 4Q, versus estimate of 0.6%, Australian Bureau of Statistics says. A Labor victory in this year's elections may help spur growth if the party introduces industrial reforms such as restoring penalty rates and tighter controls on enterprise agreements. Aussie was stronger in early trade, extending gains from Tuesday when the US was said to ask China to keep the value of the yuan stable as part of trade talks.

Oil prices slipped away from 2019 highs on Wednesday, with surging US supply and slowing economic growth tempering upward pressure from supply cuts led by producer club OPEC and from Washington's sanctions on Iran and Venezuela. International Brent crude futures were still not far off their 2019 high of \$66.83 per barrel from Monday. Oil prices have been supported by supply cuts led by the OPEC. OPEC-member and top crude exporter Saudi Arabia is expected to reduce shipments of light crude oil to Asia in March as part of the effort to tighten markets.

Palladium prices broke above \$1,500 for the first time on Wednesday due to a prolonged supply deficit. Palladium is crucial in the making of catalytic converters used in exhaust systems of vehicles, and an improvement in demand from the auto sector has supported the metal's surge. Furthermore, the supply deficit is likely to widen this year as stricter emissions standards increase demand for catalytic converters, Britain-based autocatalyst manufacturer Johnson Matthey said last week.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	96.569	0.05%	0.41%
EUR/\$	1.1333	-0.07%	-1.17%
GBP/\$	1.3048	-0.11%	2.31%
AUD / \$	0.7160	-0.07%	1.57%
NZD/\$	0.6864	-0.28%	2.16%
\$/JPY	110.87	-0.22%	-1.06%
\$/CAD	1.3202	0.07%	3.30%
\$/CHF	1.0019	-0.09%	-1.98%
\$/SEK	9.3176	-0.07%	-4.98%
\$/NOK	8.5817	-0.18%	0.69%
\$/DKK	6.5838	-0.07%	-1.10%
\$/TRY	5.2886	-0.11%	0.02%
EUR/GBP	0.8686	-0.06%	3.50%
EUR/JPY	125.66	-0.17%	0.14%
EUR/CHF	1.1355	-0.02%	-0.88%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1341.70	0.06%	4.62%
Silver Spot \$/Oz	16.01	0.09%	3.30%
Platinum Spot \$/Oz	819.95	0.04%	3.05%
Palladium Spot \$/Oz	1491.52	0.72%	18.21%
COPPER \$/lb	288.30	0.17%	9.33%
WTI \$/bbl	56.16	0.12%	23.67%
BRENT \$/bbl	66.34	-0.17%	23.31%

### In focus today 🕒

	TIME (LT)	EVENT	FCAST	PRIOR
GBP	13:00	UK CBI Industrial Order Expect	-5	-1
USD	21:00	US FOMC Jan Meeting Minutes		

**Thursday:** AU Jobs Report, Eurozone Flash Manufacturing PMI, ECB Policy Meeting Accounts, US Durable Goods, Canada BoC Poloz speaks

**Friday:** AU RBA Lowe speaks, German Final GDP, German Ifo Business Climate, Eurozone Final CPI, Canada Retail Sales, ECB Draghi speaks, Several US Fed speakers

# STOCKS & BONDS

**Asian stocks advanced to 4-1/2-month highs on Wednesday as investors bet that Chinese and US trade negotiators would be able to secure a deal to de-escalate their year-long tariff war.** MSCI's broadest index of Asia-Pacific shares outside Japan rose as much as 1.1% to mark its highest levels since Oct. 2. It last traded up 0.9% on the day. Hong Kong's Hang Seng gained as much as 1.3% to 6-month highs, while Korea's Kospi and Taiwan's index recovered to levels last seen in early October. Japan's Nikkei added 0.6% to two-month highs. China's bluechip shares rose 0.3%, extending their run of gains to 18% from their Jan 4 trough, thanks to inflows of foreign funds.

**US stocks gained ground on Tuesday as upbeat results from Walmart boosted investor sentiment and high-level US-China trade talks resumed in Washington.** All three major US equity indexes closed higher, with the Nasdaq ending its seventh consecutive day in the black. Stocks have recovered broadly from their year-end selloff, with the Nasdaq up almost 21% from its Dec. 24 low and the S&P 500 more than 18%. More stocks are making 52-week highs than at any time since Wall Street was taking those indexes to records in August and September. Stocks pared their gains late in the session, however, after a Reuters story quoted New York Fed President John Williams saying a different economic outlook would be necessary for the US Fed to resume its interest rate hikes. Consumer discretionary stocks, led by Amazon.com, provided the biggest lift to the S&P 500 and Nasdaq, while Walmart Inc headed up the blue-chip Dow's advance. Walmart reported a better-than-expected jump in same-store sales during the holiday quarter, sending shares of the world's largest retailer up 2.2%. A fresh round of high-level trade talks between the US and China began in Washington, with US Chamber of Commerce vice president Myron Brilliant expressing hope that "the two sides will reach a comprehensive, bold and significant trade agreement. On Wednesday, the FOMC is slated to release minutes from its January policymaking meeting. Indeed, in the quarters ahead, analysts see a slowdown in corporate profit growth. While Q4 profits are expected to have increased by 16.3%, the outlook going forward grows cloudier. Q1 2019 earnings are now seen dropping by 0.6% from last year, which would mark the first annual decline since the earnings recession that ended mid-2016. Of the 11 major sectors in the S&P 500, all but healthcare and industrials closed in positive territory. Amazon ended the session up 1.2%, bouncing back from a two-day sell-off following news that the e-commerce giant's China unit is in merger talks with Chinese shopping site Kaola. Shares of Freeport McMoRan jumped 6.6% after Citigroup raised the stock to "buy" from "neutral."

**Most Gulf stock markets were lower yesterday.** The Dubai index extended gains as it rose for a fifth session, mainly driven by property stocks after strong Q4 earnings. Saudi index fell as investors booked profit after the market gained significantly this year. Banks had led the rally, then were hit hard, with nine of 11 banks falling.

*Egypt has issued \$4 billion in foreign currency bonds and the sale was oversubscribed fivefold, attracting \$21.5 billion in bids, the Finance Ministry said on Wednesday. The issue included \$750 million in five-year bonds, \$1.75 billion in 10-year bonds and 1.5 billion in 30-year bonds, and the proceeds will be used to finance the state budget, the ministry said.*

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Abu Dhabi	5035.13	-0.09%	2.58%
Dubai	2565.85	0.60%	2.42%
Qatar	9982.25	-0.52%	-2.85%
Oman	4056.90	-0.42%	-6.19%
Egypt	15155.84	-0.47%	16.26%
Kuwait	5461.12	0.72%	3.81%
Bahrain	1392.60	0.96%	4.96%
<b>10-YEAR BONDS</b>			
U.S.	2.6429	0.0090	-0.0413
Germany	0.1050	-0.0050	-0.1370
U.K.	1.1690	0.0030	-0.1080
France	0.5330	-0.0120	-0.1770
Australia	2.1000	-0.0350	-0.2180
Japan	-0.0340	-0.0060	-0.0370

## Major Company News

- Walmart Inc posted its strongest holiday quarter in at least a decade on Tuesday, boosted by higher grocery and e-commerce sales, and said it saw no signs of weakness in US consumer spending despite recent signs of a slowdown.
- Nissan Motor Co Ltd's independent committee on governance is expected to recommend against the company having the same chairman as Renault SA, the Financial Times reported.
- Fresenius Medical Care, world's biggest provider of dialysis services, signalled a return to profit growth from 2020 on Wednesday and said it would buy back shares worth 1 bn euros over the next two years.
- The US government has reached a settlement with Teva Pharmaceuticals Industries Ltd over charges that its agreements with rivals impeded consumer access to lower-priced generic drugs.
- Ford said on Tuesday it will close its oldest factory in Brazil and exit its heavy commercial truck business in South America, a move that could cost more than 2,700 jobs as part of a restructuring.
- A fire hit a crude oil pumping station in Venezuela's Orinoco belt region on Tuesday, state-owned oil company Petroleos de Venezuela (PDVSA) said, disrupting crude transportation as the cash-strapped firm struggles with the impact of US sanctions.
- Brazil oil company Petroleo Brasileiro SA has hired the investment banking unit of Banco Santander Brasil SA to revive efforts to sell its liquefied petroleum gas (LPG) distribution unit, four sources with knowledge of the matter said on Tuesday.
- Concho Resources reported quarterly profit that missed Wall Street estimates on Tuesday, sending shares lower in after-hours trading.
- Oil and gas producer Devon Energy Corp reported a better-than-expected quarterly production on Tuesday, aided by more output from its US shale assets, sending its shares up 6% after the bell.

## TOP SELECTED NEWS

### UK admits trade deals with Japan, Korea unlikely before Brexit

(Bloomberg) Business Secretary Greg Clark said the UK isn't likely to reach agreements with Japan and South Korea to roll over existing trade deals before Britain's scheduled departure from the EU on March 29. Britain benefits from about 40 free-trade agreements with 70 nations through its EU membership, and it's been seeking to extend them after Brexit. Combined, they account for 11% of UK trade. "Unfortunately not all of the FTAs -- and I might mention the Japan and Korean ones that are important -- are expected to be concluded in time," Clark told executives and journalists on Tuesday at the annual conference of the MakeUK manufacturing lobby group. "That is one of the reasons why I think it is so important that we should not leave without a deal."

### Japan's exports fall most in 2 years

(Reuters) Japan's exports posted their biggest decline in more than two years as China-bound shipments tumbled, fuelling concerns about slowing global demand as the business mood sours and orders for the country's machinery goods fell sharply. Ministry of Finance data out on Wednesday showed Japan's exports fell 8.4% year-on-year in January, a bigger decline than the 5.5% fall expected by economists in a Reuters poll. It was the sharpest annual decline since October 2016, and followed a revised 3.9% year-on-year drop last December. The data came after a key gauge of Japanese capital spending showed overseas orders for machinery fell the most in more than a decade in December, and business sentiment soured to a two-year low, as trade friction and slowing Chinese growth bite. Japanese exports to China, Japan's biggest trading partner, fell 17.4% year-on-year. While the Lunar New Year holiday weighed on China-bound exports, analysts say there are more concerning drivers behind January's decline. In contrast, exports to China rose 30% year-on-year in January 2018.

### Asian millers turn to Argentina for wheat

(Reuters) Asian wheat millers are snapping up cargoes of the grain from Argentina to arrive in the first-half of the year, typically peak-export season for traditional supplier Australia where a second year of drought is hitting production. Large volumes of exports to Asia from Argentina could further chip away at Australia's dominance of the region's wheat supply, which has already been eroded by growing Black Sea shipments over the past few years. Indonesia, the world's second-largest wheat importer, has booked close to 1 million tonnes of Argentinian wheat for arrival between February and April, while Malaysia and Vietnam have also contracted shipments, according to estimates from two Singapore-based traders who were involved in some of the deals. Argentinian wheat with 12-pct protein has been traded in Asia at around \$255-\$265 a tonne, including cost and freight (C&F). That compares with similar quality Australian grain quoted around \$300 a tonne C&F to Asia.

### Swedbank reportedly behind \$4.3b in suspicious transfers

(Bloomberg) Sweden's Swedbank AB, the largest lender in the Baltic countries, became the latest Nordic bank to face allegations that it was used to launder money. Swedish broadcaster SVT alleges that some 50 customers at Swedbank, which all show "clear warning signals regarding suspected money laundering," have transferred about 40 billion kronor (\$4.3 billion) between the Stockholm-based lender and

Danske Bank A/S. A spokesperson for Swedbank told SVT that the lender has identified suspicious transactions, which it has reported to the police. The development comes as a \$230 billion scandal engulfing Danske continues to spread, with the financial supervisory authorities in Denmark and Estonia now under formal investigation by the European Banking Authority.

### Microsoft expands political security service to 12 European countries

(Reuters) Microsoft Corp on Wednesday said it will offer its cyber security service AccountGuard to 12 new markets in Europe including Germany, France and Spain, to close security gaps and protect customers in political space from hacking. Microsoft had recently detected attacks, which occurred between September and December 2018, targeting employees of the German Council on Foreign Relations and European offices of The Aspen Institute and The German Marshall Fund, the company said here in a blog post. The attacks, which targeted 104 employee accounts in Belgium, France, Germany, Poland, Romania, and Serbia, are believed to have originated from a group called Strontium, the company added. The AccountGuard service will also be available in Sweden, Denmark, Netherlands, Finland, Estonia, Latvia, Lithuania, Portugal and Slovakia. Ahead of a critical European Parliament election in May, German officials are trying to bolster cyber security after a far-reaching data breach by a 20-year-old student laid bare the vulnerability of Europe's largest economy.

### Kellogg, Mondelez stock up on Pringles, Milka for fear of Brexit

(Reuters) As Brexit looms, Kellogg Co and Mondelez International Inc are taking measures to protect Britons from a potential shortage of Pringles chips, BelVita biscuits and Milka chocolate. With Britain at risk of leaving the EU on March 29 without a divorce deal - known as a 'hard' Brexit - several big companies have begun to prepare for the disruption that could ensue. Kellogg is opening new warehouses and stocking up on its snacks and cereals, hoping to mitigate damage from friction at the UK border and tariffs on imports, Chief Executive Steve Cahillane said in a recent interview. Kellogg is also working with suppliers to make sure it has enough raw materials at its plants, Cahillane said ahead of CAGNY, a major food and consumer products event held this week in Boca Raton, Florida. Cahillane said Kellogg's supply chain left it exposed. For instance, Pringles, the UK's No. 2 chips (crisps) brand after PepsiCo Inc's Walkers, are made in Belgium. Pringles, which could last up to 15 months in storage, banked UK retail sales of \$342.6 million last year, according to Euromonitor.

### Sainsbury faces big hurdle to Asda deal after CMA's report

(Bloomberg) J Sainsbury Plc and Walmart Inc's Asda face significant hurdles to their 7.3 billion-pound (\$9.5 billion) merger after a UK regulator said it would be difficult to address antitrust issues created by the deal. Sainsbury shares fell as much as 16%. The Competition and Markets Authority said in a provisional report Wednesday that even the sale of a large number of stores wouldn't necessarily resolve its concerns. The regulator said the companies might have to sell off one of their two well-known corporate brands to win approval. While the CMA has been mapping local areas across the UK as part of its in-depth probe, its initial view is that the loss of one of the Big Four supermarket chains will substantially cut competition at a national level. The enlarged group would rival Tesco Plc as the country's largest grocer and has attracted considerable scrutiny from competitors, suppliers and politicians.

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