

# GLOBAL MARKETS

Thursday, February 21, 2019

## Markets in brief

- Australian dollar had a bumpy ride this morning. First it jumped on upbeat jobs report. Then it fell back on reports that China would ban coal imports, in addition to more talks about possible rate cuts.
- U.S. dollar rose slightly as the Fed minutes revived rate hike expectations.
- British pound traded back under pressure after Fitch's downgrade warning.
- Euro traders would be mainly watching ECB policy meeting accounts at 14:30 LT.
- Asian stocks continued their jump helped by optimism over trade talks. U.S. stocks benefited yesterday from signs that the Fed would be patient.

## Fed minutes showing patience on rates

The Fed on Wednesday signaled they will soon lay out a plan to stop letting go of \$4 trillion in bonds and other assets, but policymakers are still debating how long their newly adopted "patient" stance on U.S. rates policy will last. For now, policymakers see little risk to leaving interest rates alone while they take time to assess rising risks, including a global slowdown, according to the Fed's minutes from their Jan. 29-30 meeting, released on Wednesday.

## Chinese central bank not considering rate cuts

China's central bank is not yet ready to cut benchmark interest rates to spur the slowing economy, despite cooling inflation and a stronger yuan, which have fanned market expectations of such a move, policy sources told Reuters. But the People's Bank of China (PBOC) is likely to cut market-based rates and further lower banks' reserve ratios (RRR) to boost credit growth and reduce firms' borrowing costs, according to the sources involved in internal policy discussions.

## U.S. and China sketching trade deal outlines

U.S. and Chinese negotiators are working on multiple memorandums of understanding that would form the basis of a final trade deal, according to a person briefed on the talks. (Bloomberg) The MoUs would cover areas including agriculture, non-tariff barriers, services, technology transfer and intellectual property, said the person, who asked not to be identified because the discussions are private. No breakthrough is expected during this week's talks in Washington on major structural issues, the person said, but there is an effort underway to potentially extend a March 1 deadline for US tariffs to rise on Chinese goods. Liu He, China's chief negotiator, is expected to meet with US President Donald Trump on Friday, according to a separate person familiar with the situation.

## Fitch warning about a U.K. downgrade; May racing time

In a surprise move that came outside of its normal ratings calendar, Fitch placed the AA grade on rating watch negative, and said that a no deal outcome, or a new relationship with the EU that "undermines" the economy, may result in a downgrade. Theresa May is racing to find a way out of the Brexit impasse amid mounting evidence that an agreement is within reach. May and Juncker had "constructive" talks and agreed to continue working on a solution to the Irish backstop. Two of her officials are in Brussels today with proposed changes Britain is seeking following those talks.

## China port to ban Australian coal imports

Customs at China's northern Dalian port has banned imports of Australian coal and will cap overall coal imports for 2019 through its harbors at 12 million tonnes, an official at Dalian Port Group told Reuters on Thursday.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1329	-0.08%
GBP/\$	1.3030	-0.15%
AUD /\$	0.7115	-0.72%
NZD/\$	0.6810	-0.69%
\$/JPY	110.76	0.08%
\$/CAD	1.3202	-0.20%
\$/CHF	1.0017	-0.14%
Gold \$	1338.36	-0.01%
Silver \$	15.99	-0.39%
Platinum \$	823.64	-0.46%
WTI \$	57.35	0.33%
BRENT \$	67.12	0.06%
<b>AMERICA</b>		
DOW JONES	25954.44	0.24%
S&P 500	2784.70	0.18%
NASDAQ	7489.07	0.03%
<b>EUROPE</b>		
STXE 600	371.46	0.67%
CAC 40	5195.95	0.69%
DAX	11401.97	0.82%
<b>ASIA PACIFIC</b>		
S&P/ASX 200	6139.25	0.70%
NIKKEI 225	21464.23	0.15%
CSI 300 (China)	3434.72	-0.50%
<b>MENA</b>		
Saudi Arabia	8567.24	0.59%
Dubai	2632.08	2.58%
Qatar	10077.82	0.96%
<b>BONDS</b>		
U.S. 10-year	2.6572	0.0001
German Bund 10-year	0.1100	0.0001
AU 10-year	2.0550	-0.0005
<b>BEIRUT S.E.</b>		
SOLIDERE - A	6.12	-5.12%
SOLIDERE - B	6.05	-6.20%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.65	-
BLOM BANK	9.00	-0.11%
BYBLOS BANK	1.35	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

## FX &amp; COMMODITIES

**The Australian dollar tumbled on Thursday after customs at China's northern Dalian port banned imports of coal from major supplier Australia.** The Aussie was down 0.72% at \$0.7115. The currency was already on the back foot after a forecast of an interest rate cuts from a major Australian bank earlier on Thursday. The indefinite ban on coal imports from Australia, effective since the start of February, comes as major ports elsewhere in China prolong clearing times for Australian coal to at least 40 days. The Aussie has been whipsawed on Thursday as a series of news left traders scrambling to cover positions. It surged 0.6% on better-than-expected jobs data, before falling on Westpac Banking Corp.'s call for two Australian rate cuts this year. A report that US and Chinese negotiators may be near a trade deal then bolstered it before the latest news. RBA Governor Philip Lowe had sent the Aussie tumbling early in February by stepping back from the central bank's long-standing tightening bias, saying the next move in interest rates could be either down or up.

**The US dollar inched up after minutes from the Fed's last meeting revived expectations for a possible US rate hike this year while investors shifted their focus back to trade issues for fresh directional cues.** The greenback had risen slightly against the yen and trimmed losses versus the euro late on Wednesday after the Fed, in the minutes of its latest meeting in January, said the US economy and its labor market remained strong, prompting some expectations of at least one more interest rate hike this year. The dollar index against a basket of six major currencies added 0.16% to 96.60, crawling away from a 2-week trough of 96.286 marked on Wednesday. The Fed caught markets off guard last month after it took a dovish turn in its commentary, widely read as a sign it would suspend a three-year campaign to raise interest rates. Trump on Wednesday said the US would impose tariffs on European car imports if it cannot reach a trade deal with the EU. The dollar was a shade weaker at 110.76 yen after rising 0.25% overnight. The euro was little changed at \$1.1329 after being nudged off a 2-week high of \$1.1371 scaled earlier on Wednesday.

**The British pound dipped 0.15% to \$1.3030 pulling back further from a near three-week high of \$1.3109 touched the previous day.** Sterling took a knock after three lawmakers defected from British Prime Minister Theresa May's ruling Conservative party in a move that could undermine her Brexit strategy. The pound was also weighed after Fitch Ratings said on Wednesday it may downgrade the UK's "AA" debt rating based on growing Brexit uncertainty.

**Oil prices hovered close to 2019 highs on Thursday, bolstered by OPEC-led supply cuts and US sanctions on Venezuela and Iran, but were prevented from rising further by slowing growth in the global economy.** Analysts said that a global economic slowdown was preventing prices from surging beyond the 2019 highs seen this week.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	96.607	0.16%	0.45%
EUR/\$	1.1329	-0.08%	-1.20%
GBP/\$	1.3030	-0.15%	2.16%
AUD/\$	0.7115	-0.72%	0.57%
NZD/\$	0.6810	-0.69%	1.35%
\$/JPY	110.76	0.08%	-0.97%
\$/CAD	1.3202	-0.20%	3.30%
\$/CHF	1.0017	-0.14%	-1.96%
\$/SEK	9.3378	-0.16%	-5.19%
\$/NOK	8.6125	-0.29%	0.33%
\$/DKK	6.5865	-0.08%	-1.14%
\$/TRY	5.3333	-0.15%	-0.82%
EUR/GBP	0.8694	-0.08%	3.40%
EUR/JPY	125.48	0.16%	0.28%
EUR/CHF	1.1348	0.02%	-0.82%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1338.36	-0.01%	4.36%
Silver Spot \$/Oz	15.99	-0.39%	3.17%
Platinum Spot \$/Oz	823.64	-0.46%	3.52%
Palladium Spot \$/Oz	1489.71	0.03%	18.06%
COPPER \$/lb	290.65	-0.48%	10.22%
WTI \$/bbl	57.35	0.33%	26.29%
BRENT \$/bbl	67.12	0.06%	24.76%

In focus today 

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	10:30	German Flash Manufact PMI	49.7	49.7
EUR	10:30	German Flash Services PMI	52.8	53.0
EUR	11:00	EU Flash Manufact PMI	50.3	50.5
EUR	11:00	EU Flash Services PMI	51.4	51.2
EUR	14:30	ECB Policy Meeting Accounts		
USD	15:30	US Initial Jobless Claims	228k	239k
USD	15:30	US Durable Goods MoM	1.60%	0.70%
USD	16:45	US Flash Manufact PMI	54.9	54.9
USD	17:00	US Existing Home Sales	5.01M	4.99M
CAD	19:35	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

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## STOCKS & BONDS

US Treasury yields ticked up modestly after the publication of minutes from the Fed's January policy meeting showed committee members were undecided on whether to hike interest rates again this year. The Fed in January signaled a pause in rate hikes, saying they would be "patient" about policy tightening, after indications of an economic slowdown roiled financial markets in December. Since then, markets had mostly priced out the possibility of another rate hike during this business cycle.

Asian shares pulled ahead to fresh 4-1/2-month highs and US equity futures rose on a Reuters report that the US and China have started to tackle the stickiest issues in their trade war. MSCI's broadest index of Asia-Pacific shares outside Japan edged up 0.1%, giving up some earlier gains after hitting a peak last seen in early October. Australian shares gained 0.7%, closing at a six-month high, but the Australian dollar tumbled sliding on fears a ban on the country's coal by a Chinese port would hurt its already slowing economy. Japan's Nikkei ended 0.1% higher. US stock futures gained 0.2%. Hong Kong's Hang Seng rose 0.1%, while Chinese blue-chips were last down 0.2%, giving up their gains after hitting their highest since early August last year. Investors have been cheered over recent days by signs of progress in Sino-US trade talks. The trade war between the economic giants has roiled financial markets over the past year.

US stocks ended higher on Wednesday after minutes from the Fed's last meeting reaffirmed for investors that the US central bank would be "patient" with respect to further interest rate hikes. But policymakers gave little sense of how long their "patient" stance on the US rate policy would last, according to minutes from the Jan. 29-30 meeting, resulting in jumpy afternoon activity and stocks trading on both sides of unchanged. A dovish Fed and progress in US-China trade negotiations have helped the S&P 500 rise about 18% from its lows in December, when the market swooned on fears of an economic slowdown. The index is trading about 5% below the record closing high it hit in late September. The rate-sensitive S&P financial index added to gains following the release of the minutes and ended up 0.6%. But the S&P materials index, up 1.7%, led%age gains among the major 11 S&P sectors, boosted by gains in commodity prices. Shares of CF Industries Holdings Inc, Mosaic Co and FreeportMcMoran rose. Investors also took in more news on the trade front, with President Donald Trump on Wednesday saying the US would impose tariffs on European car imports if it cannot reach a trade deal with the EU. On Tuesday, Trump said trade discussions with China were going well and suggested he was open to extending the deadline to complete the negotiations, saying March 1 was not a "magical" date. Southwest Airlines Co slipped 5.7% after the carrier said it would take a \$60 mn hit from the partial US government shutdown. The carrier dragged down shares of other airlines, sending the Dow Jones US Airlines index down 2.6%.

All major Gulf bourses were driven higher by a wider stocks rally on hopes of progress in trade talks between the US and China. Dubai's main stock index closed at a two-and-half-month high on Wednesday after strong Q4 earnings from real estate companies last week triggered six days of gains.

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<b>AMERICA</b>			
DOW JONES	25954.44	0.24%	11.26%
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CSI 300 (China)	3434.72	-0.50%	14.09%
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Abu Dhabi	5060.89	0.51%	2.87%
Dubai	2632.08	2.58%	3.98%
Qatar	10077.82	0.96%	-2.38%
Oman	4053.94	-0.07%	-6.24%
Egypt	15213.54	0.38%	16.71%
Kuwait	5481.15	0.37%	4.11%
Bahrain	1405.29	0.91%	5.02%
<b>10-YEAR BONDS</b>			
U.S.	2.6572	0.0125	-0.0270
Germany	0.1100	0.0100	-0.1320
U.K.	1.1810	0.0120	-0.0960
France	0.5350	0.0090	-0.1750
Australia	2.0550	-0.0450	-0.2630
Japan	-0.0390	-0.0060	-0.0420

## Major Company News

- Deutsche Telekom forecast that revenues and core earnings would continue to grow in 2019 as Chief Executive Tim Hoetiges looks to close a key US merger and invests to acquire spectrum and roll out 5G services.
- South Africa will bail out state utility Eskom with 69 bn rand (\$4.9 bn) over three years, the centrepiece of a budget that exposed the limited room President Cyril Ramaphosa has to fix the economy ahead of an election in May.
- Johnson & Johnson said Wednesday it has received subpoenas from the US Justice Dept and the SEC related to litigation involving alleged asbestos contamination in its signature Baby Powder product line.
- GoDaddy Inc forecast current-quarter revenue on Wednesday that missed analysts' estimates, sending its shares down more than 2% and overshadowing the web hosting company's strong Q4 results.
- New Zealand medical device maker Fisher & Paykel Healthcare Corp Ltd and US rival ResMed Inc have agreed to settle patent infringement disputes, ending a three-year tussle that spanned the globe and cost each side mns of dollars in legal fees.
- Garmin Ltd on Wednesday forecast full-year revenue and profit above expectations along with strong Q4 results, sending its shares up 15% to their highest in more than a decade.
- Millicom International Cellular, a cable and mobile operator in Latin America and Africa, said on Wednesday it bought the mobile telecommunications assets of Spain's Telefonica in Panama, Costa Rica and Nicaragua for \$1.65 bn.
- Shares of Canadian cannabis firm Tilray Inc rose as much as 7% on Wednesday after announcing a deal to buy hemp food maker Manitoba Harvest for up to C\$419 mn (\$318 mn) as it seeks to gain a foothold in the lucrative business.

## TOP SELECTED NEWS

### Trump threatens tariffs on European cars if no trade deal

(Reuters) Trump on Wednesday said the United States would impose tariffs on European car imports if it cannot reach a trade deal with the European Union. Speaking to reporters at a White House meeting with Austrian Chancellor Sebastian Kurz, Trump said the auto tariffs were something his administration was considering. "We're trying to make a deal. They're very tough to make a deal with - the EU," Trump said. "If we don't make the deal, we'll do the tariffs." Earlier this week, European Commission President Jean-Claude Juncker said the U.S. president, known for a strong protectionist approach to trade, had promised he would not impose additional import tariffs on European cars for the time being. But a confidential Commerce Department report sent to Trump over the weekend was widely expected to clear the way for him to threaten tariffs of up to 25 percent on imported autos and auto parts by designating the imports as a national security threat. Trump on Wednesday downplayed the report, calling it a study.

### Venezuela gets fuel from Russia, Europe but the bill soars

(Reuters) Venezuela is paying heavy premiums for fuel imports from Russia and Europe, with fewer than a dozen sellers seeing the risk as worth the reward after flows from the US dried up because of sanctions, trading sources said and data showed. The South American nation exports crude but its refineries are in poor condition - hence the need to import gasoline and diesel for petrol stations and power plants, as well as naphtha to dilute its heavy oil. Since the US imposed fresh sanctions on Venezuela on Jan. 28, products supplies have mainly come from Russian state oil major Rosneft, Spain's Repsol, India's Reliance Industries and trading houses Vitol and Trafifigura, according to sources and vessel-tracking data. Russia has been a traditional political backer of Caracas, while India and Spain also have long-standing trade ties. But supplies even from those allies are coming at a cost.

### StanChart to take \$900 mn charge over US, UK probes

(Bloomberg) Standard Chartered Plc will take a \$900 mn charge tied to regulatory probes in its Q4 results, a move that will erode earnings as its top executive prepares to unveil a turnaround plan. The provision will cover the UK bank's estimates for potential penalties from investigations over US sanctions violations, currency trading issues and financial-crime controls, the company said late Wednesday. Standard Chartered has been bracing for a possible US fine related to past dealings with Iran, and the charge may indicate a settlement is close. Chief Executive Officer Bill Winters is due to present his plan to improve profitability when the bank reports full-year results on Tuesday. He may also announce a new round of cost cuts to boost a share price that's down more than 35% since he took over in June 2015. The provision could wipe out the majority of the bank's second-half profit. Joseph Dickerson, an analyst at Jefferies Financial Group Inc., said in a note this week he estimated the firm would post pretax profit of \$1.4 bn in the last six months of 2018, excluding litigation costs. Shares of Standard Chartered slipped but it is still up about 7% this year after dropping 27% in 2018.

### UBS to appeal after fined 4.5 bn euros in French tax fraud

(Reuters) A French court found Swiss bank UBS AG guilty of illegally soliciting clients and laundering the proceeds of tax evasion, ordering it to pay 4.5 bn euros (\$5.1 bn) in penalties. Shares in the Swiss bank fell as much as 3.2 percent after the

Shares in the Swiss bank fell as much as 3.2 percent after the ruling on Wednesday. UBS, which has denied any wrongdoing, said it would launch an appeal. "The court can only conclude that (UBS) consistently put its own financial interests over the sovereign rights of the French state," the court's president Christine Mee said in her ruling. The case shows how French courts are taking a hard line on financial misconduct in general, and tax fraud in particular. The trial will be scrutinized by European bankers who have come under pressure from regulators to tighten compliance with money laundering rules since the financial crisis.

### Deutsche Bank lost \$1.6 bn on Munis over decade, WSJ

(Bloomberg) Deutsche Bank AG racked up \$1.6 bn in losses tied to a portfolio of municipal bonds and related derivatives that the lender offloaded in 2016, the Wall Street Journal reported. The bank faced internal questions over a number of years about whether it was recognizing the losses quickly enough on the portfolio it bought in 2007, the Journal reported, citing bank documents and people it didn't name. The company recognized the majority of the loss in 2015 and 2016, the paper said. In its 2016 annual report, the firm told investors it had "de-risking losses" of 821 mn euros (\$864 mn), "mainly from the unwind of long dated derivative exposures and related assets." "This transaction was unwound in 2016 as part of the closure of our Non-Core Operations Unit (NCOU)," Troy Gravitt, a spokesman for the bank in New York, said in an emailed statement. "External lawyers and auditors reviewed the transaction and confirmed it was in line with accounting standards and practices." The muni portfolio included insurance from monoline bond insurers, and Deutsche Bank bought additional protection from Berkshire Hathaway Inc. in 2008, the Journal reported.

### Samsung announces folding phone with 5G

(Reuters) Samsung Electronics Co Ltd on Wednesday unveiled a nearly \$2,000 folding smartphone in a bid to top the technology of Apple Inc and Chinese rivals and reignite consumer interest amid slumping sales. The Galaxy Fold will go on sale on April 26 and take advantage of new and faster 5G mobile networks. The device looks similar to a conventional smartphone, but then opens like a book to reveal a display the size of a small tablet at 7.3 inches (18.5 cm). The device "answers skeptics who said that everything that could be done has been done," DJ Koh, chief executive of Samsung Electronics, said at an event in San Francisco. "We are here to prove them wrong."

### Lenovo Q3 profit beats, powering share surge

(Reuters) Lenovo Group, the world's largest personal computer maker, posted better-than-expected quarterly results and shrugged off the impact of a bruising Sino-US trade war, sending its shares soaring 11% to three-year highs. The company, dual-headquartered in China and the US, is optimistic of further growth in China and will focus on the premium market, CEO and chairman Yang Yuanqing told Reuters after December quarter revenue rose to the highest in four years on a strong showing across its major business groups. Lenovo shares rose 11.4% on Thursday morning, poised for their best one-day gains in almost 10 years, and adding about \$1 bn to their market value. Yang said Lenovo is well-prepared for geopolitical and economic volatility as its manufacturing facilities are spread across China, the US, India, Brazil, Japan and Mexico, ensuring a stable supply.

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