

# GLOBAL MARKETS

Friday, February 22, 2019

## Markets in brief

- U.S. dollar continued to gain support from rising treasuring bond yields.
- Australian dollar steadied after its recent sharp slide on upbeat RBA comments and easing concerns about China's ban on Australian coal imports
- NZ dollar dropped on higher rate cut expectations.
- Euro was slightly higher on track for a weekly gain. Traders awaited ECB's Draghi comments at 17:30 LT.
- Oil prices traded firm supported by ongoing supply cuts, in addition to hopes from U.S.-China trade talks.
- Asian shares recouped earlier losses supported by rising optimism over trade talks.
- U.S. stocks were pressured yesterday by weak economic data.

## Is Brexit delay a possibility?

The EU expects U.K. PM Theresa May to be forced to request a three-month delay to Brexit, two EU officials said to Bloomberg. The EU sees this as a "technical extension" to give British Parliament time to pass necessary legislation related to its departure from the bloc. Anything longer than three months would put the U.K. under pressure to take part in European elections on May 23-26, something that both sides are keen to avoid. A group of 100 moderate Tory MPs is ready to rebel by forcing May to delay, the Telegraph reported. A U.K. official played down the chances of a revised deal being agreed by next week.

## Trump to meet Liu today

Trump will meet with Chinese Vice Premier Liu He, who is leading trade talks with U.S. officials in Washington, at the White House on Friday, the White House said on Thursday. The meeting would cap the latest round of talks, and it signals optimism that discussions are making enough progress to warrant another face-to-face chat.

## ... China's proposal

China is proposing that it could buy an additional \$30 billion a year of U.S. agricultural products including soybeans, corn and wheat as part of a possible trade deal being negotiated by the two countries, according to people with knowledge of the plan. The offer to buy the extra farm produce would be part of the memoranda of understanding under discussion by US and Chinese negotiators in Washington, according to the people, who asked not to be identified because the plans are confidential.

## Australia downplayed import ban

Australia's Minister for Trade, Simon Birmingham, said on Friday delays to exports of coal to China were caused by import quotas and not a blanket ban on Australian coal. The Australian dollar fell more than 1% on Thursday after Reuters reported that customs at Dalian had banned imports of Australia's biggest export earner since the start of February. Birmingham, however, denied Australia has been unduly treated.

## RBNZ proposing higher capital ratios

New Zealand's top four banks could have to raise NZ\$20 billion (\$13.53 billion) in new capital over the next five years to meet the central bank's proposed new capital requirement, a move that could lead to higher borrowing costs. If a tightening in financial conditions from such fundraising is accompanied by tepid inflation and slow employment growth, the RBNZ could eventually consider easing policy from current record lows, the bank said on Friday.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1349	0.11%
GBP/\$	1.3034	-0.07%
AUD /\$	0.7114	0.31%
NZD/\$	0.6797	-0.06%
\$/JPY	110.75	-0.05%
\$/CAD	1.3219	0.10%
\$/CHF	1.0005	0.05%
Gold \$	1326.64	0.23%
Silver \$	15.90	0.51%
Platinum \$	829.92	0.82%
WTI \$	57.07	0.19%
BRENT \$	67.07	0.00%
<b>AMERICA</b>		
DOW JONES	25850.63	-0.40%
S&P 500	2774.88	-0.35%
NASDAQ	7459.71	-0.39%
<b>EUROPE</b>		
STXE 600	370.06	-0.09%
CAC 40	5202.48	0.12%
DAX	11439.68	0.14%
<b>ASIA PACIFIC</b>		
S&P/ASX 200	6167.31	0.46%
NIKKEI 225	21425.51	-0.18%
CSI 300 (China)	3520.12	2.25%
<b>MENA</b>		
Saudi Arabia	8547.48	-0.23%
Dubai	2633.69	0.06%
Qatar	10191.50	1.13%
<b>BONDS</b>		
U.S. 10-year	2.6788	-0.0001
German Bund 10-year	0.1140	-0.0001
AU 10-year	2.0960	0.0004
<b>BEIRUT S.E.</b>		
SOLIDERE - A	6.08	-0.65%
SOLIDERE - B	6.10	0.82%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.65	-
BLOM BANK	9.00	-
BYBLOS BANK	1.34	-0.74%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

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## FX & COMMODITIES

**Higher US bond yields underpinned the dollar on Friday, while its Australian counterpart steadied after its recent sharp slide on upbeat central bank comments and easing concerns about China's ban on Australian coal imports.** The dollar index against a basket of six major currencies was little changed at 96.608 after edging up about 0.15% overnight when long-term Treasury yields surged to a one-week high on news of progress in US-China trade talks. However, the greenback's gains were capped after Thursday's soft US economic data, including an unexpected fall in core capital goods orders and weak existing home sales, which affirmed expectations that the Federal Reserve will hold interest rates steady.

**The Japanese yen was flat at 110.75 yen following modest overnight gains.** It was headed for a gain of roughly 0.2% this week. The yen barely budged after data showed Japan's core consumer prices rose 0.8% in January from the previous year, with the outcome in line with forecasts. Japanese inflation remains distant from the Bank of Japan's 2% target, reinforcing market expectations the country is nowhere near an exit from ultra-loose monetary policy.

**The euro was 0.11% higher at \$1.1349 and on track to gain 0.4% on the week.** Traders are watching out for Germany's Ifo business climate index due later in the session for any potential catalysts for the common currency.

**The Australian dollar was up 0.31% at \$0.7114 after sliding more than 1% to a 10-day low the previous day on fears a ban on the country's coal by a Chinese port would hurt Australia's already slowing economy.** The Aussie's bounce came after the government downplayed the ban. In addition, upbeat remarks from the country's central bank chief earlier in the day also boosted the currency. RBA Governor Philip Lowe hinted that NAIRU -- the non-accelerating inflation rate of unemployment -- is 4.5%. That's below the 4.75% level forecast in this month's statement on monetary policy for where the jobless rate will be through 2021. Lowe also said RBA isn't on a predetermined course on interest rates.

**New Zealand dollar fell after RBNZ said proposals to increase lenders' capital requirements could eventually lead to an interest-rate cut.** Aussie gains as the Australian government downplayed reports of a coal shipment ban by China. NZD/USD down 0.4% to 0.6777, and is poised for a 1.3% weekly slide.

**The British pound was steady at \$1.3034 after inching lower overnight.** Sterling has swung wildly between a low of \$1.2895 and a high of \$1.3109 this week as British Prime Minister Theresa May tries to persuade European Commission chief Jean-Claude Juncker to modify her withdrawal deal and then get the tweaked agreement through parliament.

**Oil prices were firm on Friday, supported by OPEC's ongoing supply cuts and hopes that Washington and Beijing may soon end their trade dispute.** Despite this, prices remained just below 2019 peaks reached earlier this week as US crude oil production hit a record 12 million bpd and its exports also surged. Traders said prices were lifted from earlier drops by hopes that Washington and Beijing could resolve their trade disputes, which have dented global economic growth, before a March 1 deadline, during negotiations this week. Prices have also been supported by supply cuts led by the OPEC.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	96.556	-0.05%	0.40%
EUR/\$	1.1349	0.11%	-1.03%
GBP/\$	1.3034	-0.07%	2.20%
AUD/\$	0.7114	0.31%	0.92%
NZD/\$	0.6797	-0.06%	1.16%
\$/JPY	110.75	-0.05%	-0.96%
\$/CAD	1.3219	0.10%	3.16%
\$/CHF	1.0005	0.05%	-1.84%
\$/SEK	9.3509	0.13%	-5.32%
\$/NOK	8.6154	0.10%	0.30%
\$/DKK	6.5751	0.11%	-0.97%
\$/TRY	5.3270	-0.13%	-0.71%
EUR/GBP	0.8707	-0.17%	3.25%
EUR/JPY	125.69	-0.16%	0.11%
EUR/CHF	1.1355	-0.07%	-0.87%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1326.64	0.23%	3.44%
Silver Spot \$/Oz	15.90	0.51%	2.58%
Platinum Spot \$/Oz	829.92	0.82%	4.31%
Palladium Spot \$/Oz	1481.86	0.55%	17.44%
COPPER \$/lb	292.50	0.91%	10.92%
WTI \$/bbl	57.07	0.19%	25.68%
BRENT \$/bbl	67.07	0.00%	24.67%

### In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	12:00	EUrozone Final CPI	1.40%	1.40%
EUR	12:00	Eurozone Core CPI	1.10%	1.10%
CAD	15:30	Canada Core Retail Sales MoM	-0.50%	-0.60%
CAD	15:30	Canada Retail Sales MoM	0.00%	-0.90%
EUR	17:30	ECB Draghi speaks		

**Next Week:** BoE Carney speaks, UK Inflation Report Hearings, US Fed Chair Powell testifies, NZ Trade Balance, Canada Inflation, AU CAPEX, Canada Current Account, China Manufacturing PMI, Eurozone Manufacturing PMI, Eurozone Flash CPI, US ISM Manufacturing PMI, Canada GDP, US Core PCE Prices Index, US Personal Spending

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## STOCKS & BONDS

### Asia shares recouped early losses on Friday, buoyed by strong gains in China as signs of progress in trade talks with the US offset worries about a deteriorating global economic outlook.

MSCI's broadest index of Asia-Pacific shares outside Japan was 0.3% higher by mid-afternoon, having spent the day dipping in and out of negative territory. Chinese shares rallied in the afternoon after a tentative start as optimism over trade talks reasserted itself, pushing the blue-chip index 2.2% higher. For the week, the it gained 5.4%, its strongest week since November 2015. China stocks had faltered earlier on investor concerns over slowing domestic growth and on indications that Chinese authorities will resort to a benchmark lending rate cut only as a last resort to boost the economy. Growth in China's new home prices fell to a nine-month low in January as broader economic weakness increasingly weighs on the property sector and consumer confidence.

### US stocks were pressured on Thursday by weak economic reports after the market's recent run of gains, and a drop in healthcare shares added to the bearish momentum.

The Commerce Department said new orders for key US-made capital goods unexpectedly fell in December, pointing to a further slowdown in business spending on equipment that could crimp economic growth. Separate data showed the Philadelphia Fed's gauge of US Mid-Atlantic business activity declined in February to its weakest level since May 2016, while another report showed US existing home sales dropped last month to the lowest level since November 2015. Recent gains in the market have been driven by hopes of progress in US-China trade talks and dovish signals from the Fed. Despite the dip, the S&P 500 hovers near two-month highs and is up about 18% since its late-December low. The US and China have started to outline commitments in principle on the stickiest issues in their trade dispute, marking the most significant progress yet toward ending a seven-month trade war, sources told Reuters. The two sides were trying to reach agreement before March 1, Reuters reported. The S&P 500 snapped a three-day streak of gains. A sharp slowdown in global growth, especially in China and Europe, along with fading fiscal stimulus and trade tensions have fueled recent worries about the economy. The Atlanta Fed's GDPNow forecast model now shows the US economy likely expanded at a 1.4% annualized rate in the fourth quarter. The S&P healthcare index slid 0.9%, weighed down by Johnson & Johnson's 0.7% fall. The healthcare giant said it received subpoenas from US regulators related to litigation involving alleged asbestos contamination in its signature baby powder product line. Adding to the day's weakness, the S&P 500 energy index fell 1.6%. Also, Domino's Pizza shares tumbled 9.1% after it missed analysts' estimates for quarterly same-store sales. Nike Inc shares were down 1% after the company's sneaker worn by emerging basketball star Zion Williamson split in half during a game.

### Most Gulf stock markets were up yesterday. Qatari index rose sharply as its blue-chip shares gained after a spate of selling.

Egypt's index was driven lower partly by its top lender. The Qatari index rose 1.1%, with 15 out of 20 stocks advancing. Heavyweights Qatar National Bank and Industries Qatar gained 2% and 1.9% respectively. Qatar was the best performing Gulf market in 2018 after a limit on foreign ownership of stocks was raised. It continued last year's performance into January but began a downward trend in February.

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<b>AMERICA</b>			
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NIKKEI 225	21425.51	-0.18%	7.05%
TOPIX	1609.52	-0.25%	7.73%
CSI 300 (China)	3520.12	2.25%	16.92%
<b>MENA</b>			
Saudi Arabia	8547.48	-0.23%	9.21%
Abu Dhabi	5098.12	0.74%	3.72%
Dubai	2633.69	0.06%	4.11%
Qatar	10191.50	1.13%	-1.04%
Oman	4055.57	0.04%	-6.20%
Egypt	15146.71	-0.44%	16.19%
Kuwait	5502.33	0.39%	4.46%
Bahrain	1404.84	-0.03%	5.05%
<b>10-YEAR BONDS</b>			
U.S.	2.6788	-0.0126	-0.0054
Germany	0.1140	-0.0130	-0.1280
U.K.	1.1800	-0.0220	-0.0970
France	0.5270	-0.0150	-0.1830
Australia	2.0960	0.0410	-0.2220
Japan	-0.0370	0.0010	-0.0400

## Major Company News

- Fidelity Investments posted record revenue and operating income in 2018 even as assets under management fell for the first time in seven years.
- Barclays Plc has increased the size of its staff bonus pool for the first time since 2013 as the British lender posts a 20% profit gain.
- File sharing and storage company Dropbox Inc forecast a drop in current-quarter operating margins from a year earlier, sending its shares down nearly 11% in extended trading.
- Merck & Co Inc said on Thursday it would buy drug developer Immune Design Corp IMDZ.O for nearly \$300 million, to gain access to its immunotherapy programs.
- Swiss construction chemicals maker Sika AG on Friday reported a full-year profit that beat expectations, bolstered by new factory openings and takeovers.
- Chinese search engine operator Baidu Inc beat market estimates for fourth-quarter revenue and profit on Thursday, as its core online marketing business stayed resilient and revenue surged in its Netflix-like streaming service iQiyi.
- Customer engagement company LivePerson Inc's quarterly revenue came ahead of Wall Street estimates, as it signed more deals in the quarter, adding clients such as Delta Air Lines and Aramark.
- Mexican broadcaster Televisa reported on Thursday that its fourth-quarter net profit fell about 84% from the year-earlier quarter, hampered by weaker advertising revenue and a loss for its secondary businesses.
- Mexico's Cemex, one of the world's largest cement producers, said on Wednesday it is selling some of its European facilities and businesses to German building company Schwenk for about \$385 mn.

## TOP SELECTED NEWS

### Firing bankers in Germany is about to get easier in Brexit

(Bloomberg) Germany is making it easier for lenders such as Deutsche Bank AG and JPMorgan Chase & Co. to fire top earners, adding flexibility for Frankfurt to lure financial companies unsettled by Brexit. Lower-house lawmakers in Berlin voted Thursday in favor of loosening German labor standards to allow the change. The government says it'll apply to a maximum of about 5,000 bankers, categorized as "risk takers," who earn some 220,000 euros (\$249,000) a year or more. Chancellor Angela Merkel's governing coalition backed the measure, arguing it's needed to strengthen the stability of Germany's finance sector and "minimize the risks" from individuals whose actions could cause fallout for their company. "This is a positive signal to strengthen the competitiveness of Germany as a location of choice for the financial industry," said Andreas Krautscheid, chief executive at the Association of German Banks. The change "will increase the attractiveness for foreign companies," he said. The change, which is likely to win upper-house approval in March, is part of wider legislation to shield the financial industry from the repercussions of the UK's leaving the EU.

### Global trade pain stings export economies

(Bloomberg) From Japan to Germany, from economic numbers to profit warnings, there's no shortage of evidence that the world is feeling the pain of a slump in trade. In Asia, South Korea and Japan reported declines in exports, while European powerhouse Germany is seeing manufacturing shrink the most in six years. Shipping giant Maersk said Thursday that profit will fall short of expectations, and Chief Executive Soren Skou said the outlook for this year is bleaker. A UBS tracker puts global growth at the weakest in a decade, and the worries have overwhelmed central bankers. On Wednesday, minutes of the Fed's last policy meeting highlighted slower growth in China and Europe, trade disputes and complications from Brexit. The European Central Bank will publish the account of its January meeting later on Thursday, and some officials have already laid the groundwork for a policy response in March. That could include new long-term loans for banks and a change to their language on the outlook for interest rates.

### LCH says bulk of euro repo, debt moved to Paris unit

(Reuters) Nearly all UK-based clearing of euro-denominated repo and government bond trades moved to Paris this week, the London Stock Exchange's clearing arm said on Thursday in a step partly aimed at easing EU concerns ahead of Brexit. LCH's dominance in London of clearing euro-denominated trades has become a political battleground as Britain prepares to leave the bloc next month, taking it outside EU financial law. Paul Elkins, head of product development at RepoClear LCH, said its Paris clearing operation handled more than 700 bn euros (\$793.24 bn) of euro-denominated repo and government debt transactions on Wednesday, leaving only a "residual" amount at the London operation.

### Kraft Heinz sinks near record low on \$15.4 bn write-down

(Bloomberg) Kraft Heinz Co. recorded a \$15.4 bn non-cash charge to write down assets including some of its most well-known brands, a striking acknowledgment that changing consumer tastes have destroyed the value of some of the company's most iconic products. The packaged food giant's charge to reduce the goodwill value of the Kraft and Oscar Mayer trademarks and other assets, coupled with disappointing

Q4 earnings and an accounting subpoena from securities regulators, sent the shares tumbling toward what would be a record low if the declines hold in trading Friday. The charges resulted in a net loss of \$12.6 bn, or \$10.34 a share. Kraft Heinz shares plummeted as much as 18%. Formed in a 2015 merger orchestrated by Warren Buffett's Berkshire Hathaway Inc. and the private equity firm 3G Capital, Kraft Heinz's portfolio plays mainly in the center of the grocery store, an area hit hard by secular shifts in eating and shopping habits, and the one at greatest risk of being disrupted by Amazon.com Inc.

### Nike shoe blowout may be a 'classic' liability case

(Bloomberg) The high-profile failure of a Nike Inc. basketball shoe on Wednesday night was more than an epic embarrassment for the athletic brand. It could be a product-liability case. Duke University star freshman Zion Williamson -- the consensus No. 1 pick in this year's National Basketball Association draft -- sprained his knee when his Nike sneaker fell apart. He tumbled to the court less than 35 seconds into the loss to in-state rival North Carolina. The incident suggests that Nike could be liable, said Paul Edelstein, a lawyer at Edelsteins Faegenburg & Brown in New York. He represents athletes in brain injury and other sports-related litigation. "This would be a classic product-liability case if Mr. Williamson suffered any type of serious injury and was inclined to bring one," Edelstein said. "This product was specifically designed to provide support for athletes such as him and clearly failed." Nike's shares fell after star college basketball player Zion Williamson's sneaker broke. The injury happened after Williamson planted his foot to change direction. His left shoe, Nike's PG 2.5 PE, came apart, causing him to fall awkwardly.

### Tesla slumps to lowest in a month

(Bloomberg) Tesla's Model 3 lost a coveted recommendation from Consumer Reports, dropping its brand from the top 10 of the magazine's closely watched annual ranking. The electric-car maker's shares dropped. The magazine said owners have complained about issues including loose-fitting exterior parts and defective glass, casting doubt on the Model 3's reliability and costing the car its recommendation. The sedan's fall from grace contributed to Tesla dropping to No. 19 in Consumer Reports' brand rankings, down 11 spots from last year and its lowest ever. Tesla's stock fell 3.7% to \$291.23, the lowest close since Jan. 23. The dropped recommendation follows two Model 3 price cuts this year to partially offset lower federal tax incentives. The moves have raised concern among some investors about demand for the vehicles keeping pace after deliveries surged in the second half of last year.

### Alibaba CEO rules out layoffs this year

(Reuters) Alibaba expects to avoid layoffs this year despite China's economic slowdown, CEO Daniel Zhang said on Friday. The comments contradict Chinese media reports and market speculation about job cuts and a pull-back for China's internet sector amid weakening domestic demand and an prolonged trade dispute with the United States. "This year we not only won't layoff employees, we will continue to utilize the resources on our platforms to boost consumption, bringing in more manufacturing and services orders," Zhang said in a Weibo post. "When the economy is bad, the biggest advantage for online platforms is to create jobs." This week reports circulated in Chinese media that e-commerce site and Alibaba rival JD.com Inc would lay off 10% of its senior executives. The company declined to comment directly on the cuts.



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## APPENDIX & DISCLAIMER

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