

# MARKETS TODAY

Tuesday, July 02, 2019

## MARKETS IN BRIEF

- Trade truce's optimism faded away and investors are doubting that the U.S. and China might be able to find a common ground to reach a trade agreement. Pessimism grew further as the U.S. threatened to impose tariffs on the EU.
- Asian stocks fluctuated today as China's weak factory activity signaled a slower economic growth.
- U.S. dollar dropped along with Treasury yields. Traders eyed the monthly jobs report that will be released on Friday.
- Australian dollar traded higher as RBA's rate cut came as expected, while some investors saw the bank reluctant to cut rates further. Now the attention will shift to Gov. Lowe comments at 12:30 LT (after midnight).
- Oil gained after OPEC agreed to extend supply cuts until next March. On the other hand, a further uptrend in prices could be limited, weighed down by demand concerns amid global economic slowdown.
- U.S. stocks climbed yesterday led by gains in technology stocks. Despite losing some of its initial steam, the S&P 500 still managed to close at a record high after.
- Most Gulf markets rose yesterday with the Saudi index gaining for the 5th day.

## U.S. proposing more EU tariffs

The US added more EU products to a list of goods it could hit with retaliatory tariffs in a long-running trans-Atlantic subsidy dispute between Boeing and Airbus. The Trade Representative's office in Washington on Monday published a list of \$4bn worth of EU goods to target in retaliation for European aircraft subsidies. The products range from cherries to meat, cheese, olives and pasta, along with some types of whiskey and cast-iron tubes and pipes. It adds to a list of EU products valued at \$21bn that the USTR published in April, according to the release. The EU has a similar case pending against Boeing and has readied retaliatory tariffs of its own. The timing of the latest punitive measures will add to already strained ties between Washington and Brussels.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1294	0.07%
GBP/\$	1.2634	-0.06%
AUD /\$	0.6988	0.32%
\$/JPY	108.33	0.11%
\$/CAD	1.3111	0.18%
Gold \$	1392.73	0.62%
WTI \$	59.19	0.17%
BRENT \$	65.32	0.40%
AMERICA		
DOW JONES	26717.43	0.44%
S&P 500	2964.33	0.77%
NASDAQ	8091.16	1.06%
EUROPE		
STXE 600	387.87	0.78%
CAC 40	5567.91	0.52%
DAX	12521.38	0.99%
ASIA PACIFIC		
S&P/ASX 200	6653.21	0.08%
NIKKEI 225	21754.27	0.11%
CSI 300 (China)	3935.32	-0.01%
MENA		
Saudi Arabia	8852.69	0.35%
Dubai	2673.68	0.57%
Qatar	10560.13	1.00%
BONDS		
U.S. 10-year	2.0135	-0.0105
German Bund 10-yr	-0.3580	-0.0010
AU 10-year	1.3340	-0.0220

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## RBA cutting rates to 1%

Australia's central bank on Tuesday cut interest rates for the second time in as many months as it strives to revive a sluggish economy and reduce unemployment, a tough task that may yet require even more stimulus. The RBA's quarter-point cut took cash rates to an all-time low of just 1% and left limited room for more reductions, raising the possibility of unconventional policy easing. It also piled pressure on the newly re-elected Liberal National government to respond with fiscal stimulus of its own, something the central bank has been crying out for.

## Italy cutting its budget deficit target

Italy cut its 2019 budget deficit target in an effort to avoid EU disciplinary action over its public finances, saying the revised data meant the country was fully compliant with EU rules. The European Commission has threatened to move against Rome because it failed to reduce its large public debt in 2018 as promised, and has called on the Italian gov't to bolster state accounts. PM Conte called a cabinet meeting on Monday to review public finances, issuing a statement afterwards saying both the structural and headline deficit would fall this year.

## Rate cut expectations growing

(Reuters) Money markets now price in roughly a 50% chance of a 10 bps cut in euro zone interest rates this month, according to futures trading on Tuesday. Eonia money market futures dated to the European Central Bank's July 25 meeting price in around 5 bps worth of interest rate cuts, up from around four bps last week. According to analysts, this is roughly the same as saying the markets price in around a 50% chance of a 10 bps rate cut. A cut by September is fully priced in by markets.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.63	-0.90%
SOLIDERE—B	6.43	-4.60%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.85	-3.75%
BLOM BANK	8.00	-
BYBLOS BANK	1.22	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The US dollar gave up gains on Tuesday as investors curbed earlier enthusiasm about US-China trade progress.** The US dollar index against a basket of six major currencies earlier rose to its highest in a week but retreated as doubt set in about the resumption of US-China efforts to resolve their trade war. The US dollar index was little changed at 96.778 on Tuesday having posted its biggest increase since March 7 on Monday on hopes Beijing and Washington were making headway in their trade negotiations. The US and China have already imposed tariffs of up to 25% on hundreds of billions of dollars of each other's goods in a dispute about China's trade practices that has lasted nearly a year. The drawn out trade war has slowed global growth and pushed many central banks to cut interest rates to support their economies. The global investor spotlight will move to US non-farm payrolls data due on Friday, which economists expect to have risen by 160,000 in June, compared with a 75,000 increase in May. However, analysts expect the dollar will struggle to make substantial gains given expectations the Fed will cut rates due to low inflation and worries about the US-China trade war.

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## FX & COMMODITIES

**The Australian dollar nursed wounds on Tuesday, a day after it posted its biggest one-day fall in more than two months ahead of an expected central bank easing while improved risk appetite supported the greenback.** The tone from the RBA was not that pessimistic, which gives the impression they are somewhat reluctant to cut rates further. The Australian dollar was up 0.32% at \$0.6988 on Tuesday after slumping 0.9% on Monday, its biggest decline since April 24. The RBA lowered interest rates by 25 bps to a record low of 1.00%, matching economists' expectations. In a statement the central said it would lower rates again "if needed," a phrase some analysts took to mean an additional rate cut is less certain than before. Market focus now shifts to Reserve Bank of Australia Governor Phillip Lowe, who speaks to business leaders in the northern Australian city of Darwin at 12:30 LT (21:30 GMT), which could provide clues on how much further interest rates could fall.

**The Chinese yuan also shed its early rise to trade lower on the day after Trump said any deal with China would need to be somewhat tilted in favor of the US, suggesting negotiations may not proceed smoothly.** The offshore yuan gave up early gains to trade around 0.2% lower at 6.8690 versus the dollar, on course for its biggest daily decline in a week.

**The euro briefly fell to an 8-day low of \$1.1275 before trading little higher at \$1.1294.** The common currency fell 0.7% on Monday, its biggest-one day decline since March as disappointing economic data triggered a tumble in bond yields and boosted expectations for a European Central Bank rate cut.

**Oil gained on Tuesday as producer club OPEC agreed to extend supply cuts until next March, although prices were pressured by worries demand could ease amid hints of a slowdown in the global economy.** Brent crude futures for September delivery were trading up 0.40%, at \$65.32 a barrel, after earlier falling to \$64.66. US crude futures for August were up 0.17% at \$59.19 a barrel, after touching their highest in over five weeks on Monday. The OPEC agreed on Monday to extend oil supply cuts until March 2020 as the group's members overcame their differences to try to prop up the price of crude. OPEC is slated to meet with Russia and other producers, an alliance known as OPEC+, later on Tuesday to discuss supply cuts amid surging US output.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—12:00	Eurozone PPI MoM	0.10%	-0.30%
CAD—16:30	Canada Manufacturing PMI	-	49.1
	OPEC-JMMC Meetings		

**Wednesday:** RBA Gov. Lowe speaks, AU Building Approvals and Trade Balance, Services PMI for major countries, ADP Nonfarm Employment, Canada Trade Claims, US Initial Jobless Claims, US ISM Manufacturing PMI

**Thursday:** AU Retail Sales, Eurozone Retail Sales, US Holiday

**Friday:** German Factory Orders, UK Halifax HPI, US Jobs Report

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CURRENCIES	LAST	1D	YTD
DXY	96.778	-0.07%	0.63%
EUR/\$	1.1294	0.07%	-1.51%
GBP/\$	1.2634	-0.06%	-0.94%
AUD /\$	0.6988	0.32%	-0.87%
NZD/\$	0.6670	-0.03%	-0.73%
\$/JPY	108.33	0.11%	1.26%
\$/CAD	1.3111	0.18%	4.01%
\$/CHF	0.9873	0.04%	-0.53%
\$/SEK	9.3395	0.21%	-5.21%
\$/NOK	8.5624	0.22%	0.92%
\$/DKK	6.6086	0.08%	-1.47%
\$/TRY	5.6814	-0.54%	-6.90%
EUR/GBP	0.8940	-0.13%	0.56%
EUR/JPY	122.35	0.02%	2.84%
EUR/CHF	1.1151	-0.04%	0.93%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1392.73	0.62%	8.60%
Silver Spot \$/Oz	15.20	0.36%	-1.91%
Platinum Spot \$/Oz	838.36	0.72%	5.37%
Palladium Spot \$/Oz	1555.49	0.49%	23.28%
COPPER \$/lb	268.60	-0.07%	1.57%
WTI \$/bbl	59.19	0.17%	30.35%
BRENT \$/bbl	65.32	0.40%	21.41%

## EQUITIES & BONDS

**Asian shares wobbled on Tuesday, US Treasury yields fell and gold rebounded as weak global factory activity reinforced fears about slowing growth, while doubts over whether the US and China can pull off a trade deal also hurt sentiment.** Trump said on Monday that any trade deal with China would need to be "somewhat tilted" in favor of the US. The US government also threatened tariffs on \$4bn of additional EU goods in a long-running dispute over aircraft subsidies. US S&P 500 e-mini futures were up 0.09% and MSCI's broadest index of Asia-Pacific shares outside Japan added 0.28%, helped by a 1.23% gain in Hong Kong shares as investors caught up to Monday's global rally. Markets in Hong Kong had been closed on Monday for a public holiday. But Chinese blue-chips dipped 0.13% and Korean shares lost 0.3%. Australian shares were flat, pulling back from earlier gains after the RBA cut its benchmark cash rate by 25 basis points to a record low of 1.0%, as widely expected. Japan's Nikkei finished up 0.11%.

*One of China's main short-term borrowing rates fell to a record low on Tuesday as demand for cash eased at the start of the month and the financial system remained flush with funds. Investors are closely watching to see if China's central bank continues to quietly guide interbank borrowing costs lower to boost the slowing economy. But most market watchers believe the latest softening in rates is due to generous liquidity injected by authorities at the end of June to reduce the risk of a seasonal cash crunch. China's benchmark overnight repo rate for banks fell to 0.70% on Tuesday, the lowest level since the data was first available in 2003.*

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## EQUITIES & BONDS

**US stocks climbed on Monday, but finished off earlier highs, led by gains in technology stocks on optimism for progress in US-China trade talks and signs of a likely reprieve for Chinese telecom company Huawei.** Despite losing some of its initial steam, the S&P 500 still managed to close at a record high after the US and China agreed on Saturday to resume trade talks. In addition, Trump also offered concessions including no new tariffs and an easing of restrictions on Huawei Technologies, while China agreed to make unspecified new purchases of US farm products. Still, stocks had given up a good portion of their earlier gains as investors contemplated whether the US Fed would be as dovish as has been anticipated recently and caution crept back in for what is likely to be a lightly traded week due to the July 4th holiday. Tech stocks, Wall Street's top performers so far in 2019, jumped 1.45%, with heavyweight Apple's 1.83% gain providing the biggest boost. Chipmakers with a sizable revenue exposure to China jumped nearly 5% at their session high before also pulling back, last showing a 2.65% gain in the Philadelphia Semiconductor index. Huawei supplier Micron Technology gained 3.9%. Stocks saw their steepest sell-off this year in May, a 6.6% decline, after a breakdown in the US-China trade talks sparked concerns of a global economic slowdown. But hopes that the Fed would cut interest rates to preserve a strong run of US economic growth, and a dovish turn by central banks around the globe, helped the S&P 500 and the Dow Jones indexes post their best June performance in decades. Gains on the Dow were held in check by a 2.1% drop in Boeing Co after a report that federal prosecutors had subpoenaed records relating to the production of the 787 Dreamliner in South Carolina. Wynn Resorts Ltd jumped 5.9%, the most on the S&P, as gambling revenue in the Chinese territory of Macau rose more than expected in June.

**Most major Gulf bourses gained yesterday, reflecting positive global market sentiment after the US and China reached a trade war truce.** Saudi index rose for a 5th straight day with banks leading gains. The index is up 13% this year, led by foreign investors, who have been net buyers of Saudi equities in recent months. Three of five tranches of Saudi stocks have joined the FTSE emerging market index this year and completed the first phase.

## COMPANY NEWS HEADLINES

- Walmart Inc plans to invest 8bn yuan (\$1.2bn) in China over the next 10 years to upgrade logistics, the US retail giant said on its social media account on Monday.
- Coty Inc said on Monday it would write down about \$3bn in value of brands acquired from Procter & Gamble Co, as the struggling cosmetics maker laid out a 4-year restructuring plan, sending its shares down as much as 19%. It closed down 13.5%, the most in S&P 500.
- Qatar Investment Authority (QIA) and real estate investment trust Douglas Emmett Inc have acquired a \$365mn real estate development in California, the Qatari sovereign wealth fund said on Monday.
- Canada's Brookfield Asset Management Inc and Singaporean sovereign wealth fund GIC on Monday agreed to buy US freight railroad owner Genesee & Wyoming Inc for about \$6.4bn in cash.
- US chip gear maker Applied Materials Inc on Monday agreed to buy Japanese peer Kokusai Electric for \$2.2bn from KKR & Co Inc, as it bets on rising demand for memory chips used in data centers, 5G phones and AI-powered devices.
- Australia's Afterpay Touch Group Ltd on Tuesday said it was moving toward appointing a "majority independent board with an independent chair", as the fast-growing lender boosts governance amid scrutiny from the financial crime watchdog.
- Australian vitamin maker Blackmores Ltd hired Alastair Symington from embattled cosmetics-maker Coty Inc as its chief executive on Tuesday, as the China-focused firm seeks to revive sales growth after a consumer downturn.
- WPP is in exclusive talks to sell a majority stake in its data analytics unit Kantar to private equity firm Bain Capital, it said on Monday, in a \$4bn deal aimed at steering the world's biggest advertising company back to growth.

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DOW JONES	26717.43	0.44%	14.53%
S&P 500	2964.33	0.77%	18.25%
NASDAQ	8091.16	1.06%	21.94%
S&P/TSX	16382.20	0.46%	14.38%
EUROPE	LAST	1D	YTD
STXE 600	387.87	0.78%	14.87%
FTSE 100	7497.50	0.97%	11.44%
CAC 40	5567.91	0.52%	17.70%
DAX	12521.38	0.99%	18.59%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6653.21	0.08%	17.83%
NIKKEI 225	21754.27	0.11%	8.69%
TOPIX	1589.84	0.31%	6.41%
CSI 300 (China)	3935.32	-0.01%	30.71%
MENA	LAST	1D	YTD
Saudi Arabia	8852.69	0.35%	13.11%
Abu Dhabi	4978.56	-0.03%	1.29%
Dubai	2673.68	0.57%	5.69%
Qatar	10560.13	1.00%	2.54%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0135	-0.0105	-0.6707
Germany	-0.3580	-0.0010	-0.6000
U.K.	0.8000	-0.0140	-0.4770
Australia	1.3340	-0.0220	-0.9840

## TOP SELECTED NEWS

### US manufacturing stumbles under weight of trade tensions

(Reuters) US manufacturing activity slowed to near a three-year low in June, with a measure of new orders received by factories tumbling, amid growing anxiety over an escalation in trade tensions between the US and China. Other data on Monday showed construction spending unexpectedly fell in May as investment in private construction projects dropped to its lowest level in nearly 2-1/2 years. The reports were the latest indications that economic growth slowed in Q2 after getting a temporary boost from exports and an accumulation of inventory.

### Locked out of China, US pork producers sniff out new buyers

(Reuters) US hog farmers lost hundreds of millions of dollars in export sales to China and Mexico after President Donald Trump launched his trade wars last year. But the sector has largely offset those massive losses by cobbling together new customers in smaller markets from Colombia to Vietnam, according to a Reuters analysis of data from the US Meat Export Federation and the US Department of Agriculture (USDA). As American farmers pin their hopes for a trade deal on Trump and Chinese President Xi Jinping's agreement to restart talks at last week's G20 summit, the pork industry stands out for its success in avoiding the sharp sales reductions that have slammed other US farm sectors, such as



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## TOP SELECTED NEWS

soybeans and sorghum. Overall, US pork exports fell 3.9% by volume and 8.4% by value from May 2018 to April 2019, compared to a year earlier, according to data compiled by the US Meat Export Federation. China increased its tariff on US pork in April of last year and again in July, when it imposed tariffs on soybeans.

### **China's Huawei awaits US Commerce nod on resuming usage of Google Android**

(Reuters) Huawei said on Monday it is awaiting guidance from the US Dept of Commerce on whether it can resume using Google's Android mobile operating system on upcoming smartphones. "We acknowledge President Trump's comments related to Huawei over the weekend and will wait for guidance from the Department of Commerce but have nothing further to add at this time," said Tim Danks, Huawei vice president of risk management and partner relations, in response to a reporter's question about its access to the Alphabet Inc Android operating system.

### **Credit Suisse international wealth CEO exits amid talent fight**

(Bloomberg) Iqbal Khan, the head of Credit Suisse Groups international wealth-management unit, is departing in a move that may leave the Swiss bank facing him as a major competitor. The unit's CFO, Philipp Wehle, will take over effective immediately, Credit Suisse said in a statement late Monday, noting Khan will "continue his career outside the company." Khan, 43, is poised to take a post atop Julius Baer Group Ltd., the Swiss daily Tages-Anzeiger reported, citing unidentified people in the financial industry. Julius Baer declined to comment, the newspaper said.

### **Deutsche Bank discusses lower capital buffer with regulators**

(Bloomberg) Deutsche Bank AG is sounding out regulators about lowering its capital cushion as a way to help finance its impending restructuring, according to people with knowledge of the matter. The lender has discussed lowering its common equity tier 1 ratio -- a key measure of financial strength -- with German financial regulator Bafin and the European Central Bank, the people said, asking not to be identified as the information is private. The authorities are generally positive about Chief Executive Officer Christian Sewing's restructuring plans, they said.

### **AB InBev seeks \$9.8 billion for Asia unit in world's largest IPO this year**

(Reuters) Brewing giant Anheuser-Busch InBev NV (AB InBev) is seeking to raise up to \$9.8bn from a Hong Kong listing of its Asia-Pacific business, marking what would be the world's largest IPO this year. Budweiser Brewing Company APAC, which includes a portfolio of more than 50 beer brands in the region, is selling 1.6bn primary shares at between HK\$40-\$47 (\$5.13-\$6.02) apiece, according to term sheets seen by Reuters. The deal will raise between \$8.3bn and \$9.8bn for heavily-indebted AB InBev before any over-allocation option is included, giving Budweiser Asia a market capitalization of up to \$63.7bn after the IPO.

### **Amazon plans to create 1,800 jobs in France in 2019**

(Reuters) US online retail giant Amazon said on Tuesday it will create 1,800 permanent contract positions this year in France, its largest European market after Britain and Germany. The increase will bring Amazon's total number of permanent staff to 9,300 by end 2019 and reflects the group's commitment to the French market where it has invested over 2bn euros since 2010, the statement said. Amazon has been expanding steadily in France where it has 20 sites, including six logistics centers, the most recent slated to open over summer in Bretigny-Sur-Orge near Paris.

### **Bankrupt Puerto Rico hit with new spending curbs by oversight board**

(Reuters) Puerto Rico's federally created fiscal oversight board on Monday imposed a fiscal 2020 budget on the bankrupt US commonwealth that for the first time limits spending choices by its government, according to the board's executive director. Natalie Jaresko said the \$20.2bn budget for the central government that includes \$9.1bn of general fund spending complies with the fiscal plan for the island, which filed a form of bankruptcy in 2017 to restructure about \$120bn of debt and pension obligations.

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