

MARKETS TODAY

Thursday, July 04, 2019

MARKETS IN BRIEF

- U.S. dollar remained under pressure as Fed rate cut expectations were growing especially after yesterday's weak economic data. All attention shifted to tomorrow official jobs report.
- Global government bonds rallied, which has pushed U.S. Treasury yields to the lowest in more than 2-1/2 years and sent European rates to record lows on increasing bets major central banks will ease policy to bolster the global economy.
- Italian bonds extended their biggest surge in 6 years and banking stocks joined the rally after the European Commission refrained from disciplinary action. Italy's yield spread over Germany dropped below 200 bps for the first time in over a year.
- Australian dollar rose above \$0.70 level to 2-month highs, helped by gains in the Chinese yuan.
- Euro and British pound traded near 2-week lows.
- Oil prices inched lower after a big jump yesterday on lower-than-expected decline in crude inventories.
- U.S. stocks closed at midday on Wednesday for the eve of Independence Day. All three major stock indexes finished at record closing highs as expectations of Fed policy easing grew.
- Asian stocks tracked Wall Street higher today.

U.S.-China talks resuming next week

U.S. and Chinese officials will talk by phone in the coming week as they seek to resolve a growing trade war between the two countries, said Larry Kudlow, Trump's chief economic adviser. "They're on the phone," Kudlow told reporters at the White House on Wednesday. "They will be on the phone this coming week. And they will be scheduling face-to-face meetings. Lots of communications." Trump has said a new round of trade talks with China is underway, ending a stalemate between the two countries. Trump and Chinese President Xi Jinping agreed to restart talks at the G20 summit in Japan on Saturday, reflecting a truce in their trade war. Trump said he would hold off imposing an additional \$300bn in tariffs as talks continued.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1282	0.04%
GBP/\$	1.2571	-0.02%
AUD /\$	0.7022	-0.10%
\$/JPY	107.83	-0.02%
\$/CAD	1.3079	-0.16%
Gold \$	1414.21	-0.32%
WTI \$	56.71	-1.10%
BRENT \$	63.05	-1.21%
AMERICA		
DOW JONES	26966.00	0.67%
S&P 500	2995.82	0.77%
NASDAQ	8170.23	0.75%
EUROPE		
STXE 600	392.58	0.85%
CAC 40	5618.81	0.75%
DAX	12616.24	0.71%
ASIA PACIFIC		
S&P/ASX 200	6718.02	0.49%
NIKKEI 225	21702.45	0.30%
CSI 300 (China)	3873.10	-0.52%
MENA		
Saudi Arabia	8853.47	0.22%
Dubai	2666.04	-0.48%
Qatar	10590.60	0.12%
BONDS		
U.S. 10-year	1.9498	0.0000
German Bund 10-yr	-0.3890	-0.0040
AU 10-year	1.2920	0.0130

MARKETS TODAY

U.K.-China diplomatic dispute

Britain's Foreign Office summoned a top Chinese diplomat after he criticized the UK's response to Hong Kong protests. Ambassador to the UK Liu Xiaoming claimed in a rare press conference yesterday that Britain had gone too far in voicing sympathy for the protesters. "The UK government chose to stand on the wrong side," he said, singling out Foreign Secretary and Tory leadership candidate Jeremy Hunt for comments he dubbed "totally wrong."

U.S. trade gap widening

The US trade deficit widened by more than forecast to a 5-month high as imports surged the most since 2015, illustrating how President Donald Trump's trade policies are weighing on the economy. The gap increased 8.4% in May to \$55.5bn and April's level was bigger than previously reported, Commerce Department data showed Wednesday. Imports jumped 3.3% and exports rose 2%, the most in a year, while the goods- trade gap with China widened to \$30.1bn.

EU sparing Italy from debt penalty

The European Commission decided to withhold disciplinary action against Italy over its debt after the government in Rome offered fresh commitments that address some of Brussels' concerns. "The commission has concluded that a debt-based Excessive Deficit Procedure for Italy is no longer warranted at this stage," Economic Affairs Commissioner Pierre Moscovici told reporters in Brussels on Wednesday after a meeting of the EU's executive arm. "We will need to continue to monitor Italy's budgetary execution very closely in the second half of this year," Moscovici added.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.70	0.60%
SOLIDERE—B	6.63	-0.45%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.85	-
BLOM BANK	8.00	-
BYBLOS BANK	1.22	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

FX & COMMODITIES

The US dollar was on the back foot on Thursday, trading near a 1-week low versus the yen as falling Treasury yields boosted expectations the US Fed will cut interest rates this month for the first time in a decade. Government bonds are in the middle of a global rally, which has pushed US Treasury yields to the lowest in more than 2-1/2 years and sent European rates to record lows on increasing bets major central banks will ease policy to bolster the global economy. Waning expectations for a quick resolution to the US-China trade war also hurt sentiment for the dollar. The focus now shifts to US non-farm payrolls data due on Friday, which economists expect to have risen by 160,000 in June, compared with 75,000 in May. Positive payroll data is unlikely to buoy the dollar as expectations for US rate cuts are strong, given low inflation and the fallout from the tariffs the US and China have already imposed on each other's goods. The dollar was little changed at 107.83 yen on Thursday, after touching a 1-week low of 107.54 yen on Wednesday. The greenback has fallen 3.5% versus the yen in the past three months amid growing signs the Fed will cut rates at its July 30-31 meeting. Benchmark 10-year US yields touched 1.939%, the lowest since November 2016,

MARKETS TODAY

FX & COMMODITIES

before recovering slightly. Lower yields reduce the appeal of holding the dollar. The dollar index .DXY against a basket of six major currencies was flat at 96.771. Global forex trading likely will be subdued on Thursday as US financial markets are closed for a public holiday. US President Donald Trump's administration said on Wednesday it is scheduling a call with Chinese negotiators next week that would mark the resumption of talks between the two countries. Expectations for a smooth path to resolving the dispute have waned after Trump said any agreement would have to be tilted somewhat in favor of the US. Adding to a sense of unease about trade talks, Trump late on Wednesday repeated his view that China and Europe are manipulating their currencies to pump money into their economies and said the US should match these efforts, according to a tweet.

The Australian dollar rose to a 2-month high as gains in China's yuan boosts sentiment and exporters were said to be buying the local currency. AUD/USD reached 0.7048, highest since May 7. Nation's 10-year bond yield rises 2bps to 1.29%; 3-year climbs 2bps to 0.94%. The RBA has already cut rates this month to a record low of 1.00% and futures 0#YIB: imply a 92% chance rates will be down at 0.75% by Christmas, but the Aussie has rebounded due to expectations that central banks in the US and Europe will ease policy even further.

The euro was little changed at \$1.1282 on Thursday, near a 2-week low of \$1.1268. The common currency has weakened since IMF Managing Director Christine Lagarde, perceived as a policy dove, was nominated as the next European Central Bank president.

The British pound traded hands at \$1.2571, mired near a 2-week low of \$1.2557 due to speculation the Bank of England will abandon its preference to raise interest rates and swing to the dovish camp as the trade war and uncertainty about Britain's negotiations to leave the European Union impact the outlook.

Oil prices inched lower on Thursday after solid gains the day before, pressured by data showing a smaller-than-expected decline in US crude stockpiles. Front-month Brent crude futures, the international benchmark for oil prices, were down 1.21% at \$63.05 per barrel. Brent closed up 2.3% on Wednesday. US West Texas Intermediate (WTI) crude futures were down 1.10% at \$56.71 per barrel. WTI closed up 1.9% on Wednesday. US crude inventories dropped by 1.1mn barrels last week, the Energy Information Administration (EIA) said on Wednesday. That compared with analyst expectations for a decrease of 3mn barrels. But crude prices were underpinned after the Organization of the Petroleum Exporting Countries and other producers such as Russia, a group known as OPEC+, agreed on Tuesday to extend oil supply cuts until March 2020.

ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
	US Holiday—Independence Day		
EUR—12:00	Eurozone Retail Sales	0.40%	-0.40%

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

MARKETS TODAY

CURRENCIES	LAST	1D	YTD
DXY	96.771	0.00%	0.62%
EUR/\$	1.1282	0.04%	-1.61%
GBP/\$	1.2571	-0.02%	-1.43%
AUD /\$	0.7022	-0.10%	-0.38%
NZD/\$	0.6688	-0.30%	-0.46%
\$/JPY	107.83	-0.02%	1.72%
\$/CAD	1.3079	-0.16%	4.27%
\$/CHF	0.9858	0.10%	-0.38%
\$/SEK	9.3254	-0.14%	-5.06%
\$/NOK	8.5438	-0.10%	1.14%
\$/DKK	6.6152	0.03%	-1.57%
\$/TRY	5.6122	0.19%	-5.75%
EUR/GBP	0.8974	-0.06%	0.17%
EUR/JPY	121.65	-0.04%	3.44%
EUR/CHF	1.1121	0.06%	1.21%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1414.21	-0.32%	10.27%
Silver Spot \$/Oz	15.23	-0.47%	-1.69%
Platinum Spot \$/Oz	838.31	-0.15%	5.36%
Palladium Spot \$/Oz	1563.13	-0.70%	23.88%
COPPER \$/lb	267.15	-0.43%	1.02%
WTI \$/bbl	56.71	-1.10%	24.88%
BRENT \$/bbl	63.05	-1.21%	17.19%

EQUITIES & BONDS

Global sovereign bonds rallied overnight. The 10-year Treasury note yield plunged to 1.939%, a level last seen following Donald Trump's election as president in November 2016. Most 10-year euro zone bond yields slid to record lows on Wednesday as investors bet the ECB's dovish stance would continue, while the 10-year German Bund yield fell to minus 0.399%, flirting with the ECB's minus 0.40 deposit rate. European Union leaders' nomination of Christine Lagarde, the head of the International Monetary Fund, to replace Mario Draghi as president of the ECB reinforced expectations of more monetary policy easing if it's needed. The 10-year Italian bond yield hit 1.599%, its lowest since October 2016 as the government eases its budget ambitions.

Asian stocks advanced on Thursday, tracking solid gains on Wall Street as weak economic data in the US bolstered the prospect of rate cuts by the Fed as soon as this month. MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.4%, while Japan's Nikkei and Australian benchmark were up 0.3% and 0.6%, respectively, although a US public holiday kept activity somewhat subdued.

US stocks rose on Wednesday, with each of the major indexes closing at a record high, as expectations grew that the Fed would take a more dovish turn as a raft of data provided more evidence of a slowing economy. Data on Wednesday showed the US trade deficit jumped to a five-month high while services sector data showed a slowdown

MARKETS TODAY

EQUITIES & BONDS

in activity. The reports come on the heels of data on housing, manufacturing, business investment and consumer spending that point to slowing economic growth in the quarter. The defensive utilities .SPLRCU, real estate and consumer staples .SPLRCS rose the most among the 11 major S&P sectors as the falling bond yields made stocks that pay high dividends more attractive. The dividend yield for the broad S&P 500 and the 10-year Treasury are nearly identical. Traders currently see a 29.7% chance the Fed would cut borrowing costs by half a percentage point at its July 30-31 policy meeting, up from the 25% perceived chance on Tuesday and 24% a week ago. A cut of at least a quarter percentage point is viewed as a certainty. Rising expectations for a rate cut, fueled by softer economic data and comments from global central banks indicating a more dovish stance helped the S&P 500 and the Dow Jones indexes post their best June performance in decades. The Atlanta Fed on Wednesday trimmed its second-quarter GDP growth view to 1.3% on an annualized rate, down from 1.5% on Monday. Trading volumes were thin due to shortened trading hours on Wednesday ahead of the July Fourth holiday. About 4.15bn shares changed hands in US exchanges, compared with the 6.89bn daily average over the last 20 sessions. Additional data on the labor market showed the ADP National Employment Report, considered by some to be a precursor to the Labor Department's more comprehensive monthly nonfarm payrolls data due on Friday, showed US private employers added 102,000 jobs in June, well below economists' expectations. Among stocks, Symantec Corp surged 13.57%, the most on the S&P, after sources told Reuters that chipmaker Broadcom Inc is in advanced talks to buy the cybersecurity firm. Broadcom fell 3.5%. Tesla Inc rose 4.61% after the electric carmaker set a record for quarterly vehicle deliveries after months of questions about demand for its luxury electric cars.

Most Gulf stocks markets clawed back earlier losses on Wednesday largely on back of their financial stocks. Kuwait rose for the fifth straight session after MSCI's decision to upgrade Kuwaiti equities to its main emerging markets index. The index is up 12.8% this year, led by foreign investors.

COMPANY NEWS HEADLINES

- A federal appeals court on Wednesday ruled against Amazon.com Inc in a case that could expose the online retailer to lawsuits from customers who buy defective products from third-party vendors through its website.
- A federal judge on Wednesday ruled against Qualcomm Inc's effort to block the implementation of a sweeping antitrust ruling against it as the mobile chip supplier pursues an appeal that could take more than a year to wind through the courts.
- Spanish-language broadcaster Univision Communications Inc is exploring options, including a possible sale, the Wall Street Journal reported on Wednesday.
- China's Centurium Capital, a big backer of domestic startup Luckin Coffee, said it has raised more than \$2bn in its debut fund, giving the private equity firm more firepower to cut deals involving the world's second-largest economy.
- The US Food and Drug Administration on Wednesday approved Karyopharm Therapeutics Inc's treatment for multiple myeloma, a type of blood cancer.
- The horizon for a possible initial public offering (IPO) and stock market listing of UK supermarket group Asda by its US parent Walmart is two to three years, Asda's boss said on Wednesday.
- Polymer maker Synthomer Plc said on Wednesday it has agreed to buy Omnova Solutions Inc for an enterprise value of \$824mn in a bid to strengthen its global position.

MARKETS TODAY

AMERICA	LAST	1D	YTD
DOW JONES	26966.00	0.67%	15.60%
S&P 500	2995.82	0.77%	19.51%
NASDAQ	8170.23	0.75%	23.13%
S&P/TSX	16576.20	0.64%	15.73%
EUROPE	LAST	1D	YTD
STXE 600	392.58	0.85%	16.27%
FTSE 100	7609.32	0.66%	13.10%
CAC 40	5618.81	0.75%	18.77%
DAX	12616.24	0.71%	19.48%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6718.02	0.49%	18.98%
NIKKEI 225	21702.45	0.30%	8.43%
TOPIX	1589.78	0.65%	6.40%
CSI 300 (China)	3873.10	-0.52%	28.65%
MENA	LAST	1D	YTD
Saudi Arabia	8853.47	0.22%	13.12%
Abu Dhabi	4989.38	0.21%	1.51%
Dubai	2666.04	-0.48%	5.39%
Qatar	10590.60	0.12%	2.83%
10-YEAR BONDS	LAST	1D	YTD
U.S.	1.9498	0.0000	-0.7344
Germany	-0.3890	-0.0040	-0.6310
U.K.	0.6960	0.0050	-0.5810
Australia	1.2920	0.0130	-1.0260

TOP SELECTED NEWS

US services gauge drops to lowest since 2017 as jobs cool

(Bloomberg) A gauge of US service industries dropped more than forecast in June to the weakest in almost two years, led by a cooling in employment that may further temper optimism about the labor market heading into Friday's jobs report. The non-manufacturing index fell to 55.1 from 56.9, according to an Institute for Supply Management survey Wednesday. Three of the gauge's four components slipped, with employment dropping by the most in 16 months and new orders declining to the lowest level since December 2017. Sixteen of 18 industries reported growth in June, unchanged from the prior month.

S. Korea says Japan's high-tech export curbs threat to global economy

(Reuters) South Korea's trade minister said on Thursday Japanese export limits on high-tech materials bound for Seoul would pose a "huge threat" to the global economy and disrupt the global supply chain. Amid a growing dispute over wartime forced labour between Tokyo and Seoul, Japan on Monday announced stricter restrictions on exports of three materials used in South Korean chips and smartphone displays. The restrictions take effect on Thursday and could slow the export process by several months, affecting South Korean tech giants such as Samsung Electronics



MARKETS TODAY

TOP SELECTED NEWS

Co, SK Hynix Inc and LG Display. Trade Minister Yoo Myung-hee called for the withdrawal of Japan's latest measures and bilateral talks to discuss the broader issue of export controls, the trade ministry said in a statement.

Deutsche Bank to face up to \$5.7bn in costs for overhaul

(Bloomberg) Deutsche Bank AG Chief Executive Officer Christian Sewing's plan to overhaul the company's securities arm could cost as much as 5bn euros (\$5.7bn), according to a person familiar with the matter. The expenses may tip the German lender into a loss this year, Financial Times reported, citing three unidentified people familiar with the matter. The CEO also wants to cut Deutsche Bank's annual expenses by about 4bn euros by 2022, up from a target of 1bn euros this year, the FT said. A Deutsche Bank spokesman declined to comment.

Facebook says glitches affecting across platforms resolved

(Reuters) Facebook Inc said on Wednesday an issue with uploading or sending media files on its apps and platforms has been resolved. Earlier in the day, many users globally were not able to send and receive images, videos and other files over its social media platforms including WhatsApp and Instagram, and the social media company said it was working to fix the problem. Facebook, which gets tens of millions of dollars from advertising revenue daily, declined to comment when asked whether it will refund businesses.

Tesla soars as Model 3 paces record quarter for deliveries

(Bloomberg) Tesla Inc. shares surged as a record quarter of deliveries alleviated the worst fears about demand for the Elon Musk-led company's electric vehicles. The Model 3 maker handed over 95,200 cars to customers in the three months that ended in June, exceeding the previous best mark set in the last quarter of 2018. Tesla's delivery count exceeded all but one analyst's estimate in a Bloomberg News survey. Tesla shares jumped as much as 7.1% during US pre-market hours. The stock had fallen 33% for the year through the end of regular trading in New York on Tuesday, in part due to demand concerns that the company's billionaire chief executive officer has repeatedly disputed.

Superdry moves to fill boardroom seats after Dunkerton's bruising battle

(Reuters) Superdry has appointed former finance heads of M&S and New Look to its board, months after the UK fashion retailer's founder Julian Dunkerton rejoined after a bruising boardroom battle that saw most of its directors leave. The company said Helen Weir will become senior independent director and Alastair Miller will be the chair of the audit committee. Superdry had warned in May of a shortfall in annual profits after Dunkerton began aggressive moves to reform how the British fashion retailer was run.

Samsung in hot water over splashy Australian phone ads

(Reuters) Australia's consumer watchdog has sued Samsung Electronics Co Ltd's Australian unit for allegedly misleading consumers by promoting water-resistant Galaxy smartphones as suitable to use in swimming pools and the surf. The world's largest smartphone maker did not know or sufficiently test the effects of pool or saltwater exposure on its phones when ads showed them fully submerged, the Australian Competition and Consumer Commission (ACCC) lawsuit says. The case is the first filed by a major regulator and could result in multi-million dollar fines. It centers on more than 300 advertisements in which Samsung showed its Galaxy phones being used at the bottom of swimming pools and in the ocean.

Boeing promises \$100mn to help families affected by deadly crashes

(Reuters) Boeing Co said on Wednesday it would give \$100mn over multiple years to local governments and non-profit organizations to help families and communities affected by the deadly crashes of its 737 MAX planes in Indonesia and Ethiopia. The move appears to be a step toward repairing the image of the world's largest planemaker, which has been severely dented by the crash of an Ethiopian Airlines plane in March just five months after a similar crash of a Lion Air flight in Indonesia. The two crashes killed a total of 346 people. Boeing is the target of a US Department of Justice criminal investigation into the development of the 737 MAX.

MARKETS TODAY

Thursday, July 04, 2019

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