

# MARKETS TODAY

Monday, July 08, 2019

## MARKETS IN BRIEF

- Global stocks retreated after a strong U.S. jobs report lowered expectations of aggressive interest rate cuts by the Fed.
- U.S. stocks dipped on Friday, with the S&P 500 snapping a 3-day winning streak.
- Asian stocks tracked Wall Street down with all markets in red.
- U.S. dollar rose against its major peers supported by a recovery in Treasury yields. Traders will be mainly focusing on Fed Chair Powell comments on Tuesday, in addition to his testimonies on Wednesday and Thursday. The FOMC Meeting Minutes will be released on Wednesday.
- British pound traded near 6-month lows following poor economic data and increased expectations that the BoE will need to cut interest rates.
- Euro continued to feel the heat of Germany's weak data.
- Turkish lira weakened more than 2% against the dollar after President Tayyip Erdogan dismissed the central bank governor, laying bare differences between them over the timing of interest rate cuts to revive the recession-hit economy.
- Oil prices edged higher as traders refocused on geopolitical risks.

## Strong jobs lowering rate cut bets

The American jobs engine revived in June as hiring topped estimates, relieving pressure on the Fed to slash interest rates this month while leaving it room to make a small reduction if it wants. Nonfarm payrolls climbed a solid 224k last month, the most since January, after a disappointing 72k May advance, Labor Dpt. report showed Friday. At the same time, the jobless rate ticked up to 3.7% from a half-century low of 3.6% and average hourly earnings increased a less-than-projected 3.1% from a year earlier. Against a backdrop of subdued inflationary pressures, the wage and unemployment-rate data keep open the possibility of a cut, either at the end of this month or later. Traders trimmed bets on rate reductions after the report though still see a 25 bps cut in July.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1224	-0.01%
GBP/\$	1.2513	-0.06%
AUD /\$	0.6989	0.13%
\$/JPY	108.35	0.11%
\$/CAD	1.3071	0.08%
Gold \$	1407.19	0.55%
WTI \$	57.71	0.35%
BRENT \$	64.36	0.20%
AMERICA		
DOW JONES	26922.12	-0.16%
S&P 500	2990.41	-0.18%
NASDAQ	8161.79	-0.10%
EUROPE		
STXE 600	390.11	-0.72%
CAC 40	5593.72	-0.48%
DAX	12568.53	-0.49%
ASIA PACIFIC		
S&P/ASX 200	6672.20	-1.17%
NIKKEI 225	21534.35	-0.98%
CSI 300 (China)	3802.79	-2.32%
MENA		
Saudi Arabia	8811.11	-0.40%
Dubai	2648.59	-0.45%
Qatar	10518.20	-0.46%
BONDS		
U.S. 10-year	2.0182	-0.0156
German Bund 10-yr	-0.3800	-0.0170
AU 10-year	1.3200	0.0380

## Turkey's central bank governor fired

Turkish President Tayyip Erdogan sacked the central bank governor for refusing the government's repeated demands for rate cuts, Hurriyet newspaper on Sunday quoted Erdogan as telling a meeting with his party's lawmakers. Governor Murat Cetinkaya, whose 4-year term was due to run until 2020, was replaced by his deputy Murat Uysal, a presidential decree published early on Saturday in the official gazette showed. "We weren't on the same page," Erdogan added.

## Johnson getting closer

Boris Johnson, looking set for a landslide victory over rival Jeremy Hunt in the race to be Britain's next prime minister, has won the backing of a senior member of the cabinet: Home Secretary Sajid Javid. Javid, according to the Sunday Times, declared that the former foreign secretary Johnson is "better placed" than Hunt "to deliver what we need to do at this critical time." The endorsement followed publication of a YouGov poll Saturday in the Times showing Johnson is backed by 74% of Conservative Party members with Hunt languishing at 26%.

## Deutsche Bank's overhaul

Deutsche Bank unveiled a radical overhaul that will see the lender exit its equities business, post a 2.8bn-euro Q2 loss and cut the workforce by a fifth to reverse a slide in profitability. CEO Christian Sewing will shelve the dividend this year and next and take restructuring charges of 7.4bn euros through 2022 to pay for an overhaul that shrinks the German lender's once-mighty investment bank along with its global footprint and key fixed-income business. The bank will be cutting 18,000 jobs around the world, starting the day with cuts in Asia.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.24	-3.85%
SOLIDERE—B	6.27	-3.69%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.85	-
BLOM BANK	8.00	-
BYBLOS BANK	1.24	1.64%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The US dollar rose broadly on Monday after strong US jobs growth in June suggested the Fed will not aggressively cut interest rates later this month.** US nonfarm payrolls rebounded in June to 224,000, the most in five months, data showed on Friday, beating economists' consensus estimate of 160,000. The solid outcome virtually wipes out chances for a half point Fed rate cut at the end of July, but modest wage gains and other data showing the world's largest economy was losing steam could still encourage the central bank to cut rates by 25 bps. The dollar index (DXY) climbed to as high as 97.443 on Friday, its highest level since June 19, as US Treasury yields rose across the board. The index, which measures the greenback against a basket of major currencies, was last quoted at 97.242, almost flat in Asian trade on Monday. Against the yen, the dollar advanced to as high as 108.640 on Friday, its highest since June 18. The pair was last quoted at 108.35 yen. As traders' focus quickly shifted to Fed Chairman Jerome Powell's Congressional testimony, due on Wednesday and Thursday, analysts said it might be too late to persuade the market that the Fed will not cut rates now.

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## FX & COMMODITIES

**The euro steadied after coming under pressure on Friday as data showed that German industrial orders fell far more than expected in May** and the Economy Ministry warned that this sector of Europe's largest economy was likely to remain weak in the coming months.

**The British pound hit a 6-month low to the dollar on Friday, after poor economic data and a rise in expectations that the Bank of England will cut interest rates.** Better-than-expected US jobs data sparked a rally in the dollar, adding to sterling's losses. Sterling plunged to as low as \$1.2481, its lowest since the "flash crash" on January 3 when the pound dropped to \$1.2409. It last quoted at \$1.2525.

**The Turkish lira slumped more than 2% after President Recep Tayyip Erdogan's shock decision to replace the country's central bank governor fueled concern the regulator will lower borrowing costs by more than expected.** The currency was 2.19% lower at 5.7538 per dollar, paring its world-beating advance over the past two months. It weakened to 5.8247 in early morning Asia trade. Erdogan used his executive powers to dismiss Murat Cetinkaya over the weekend, potentially undermining the regulator's independence just weeks before it's scheduled to decide on policy. Deputy Governor Murat Uysal was named as a replacement. During a closed meeting after the decree came out, Erdogan told lawmakers from his ruling party that politicians and bureaucrats all need to get behind his conviction that higher interest rates cause inflation, according to an official who was present. He also threatened consequences for anyone who defies the government's economic policies, the official said. The decision also gives bears the justification they needed for keeping bets against the currency at the highest in the world, in spite of the lira's rally since early May, according to risk reversals. Analysts say the central bank could start easing monetary policy at a July 25 meeting. The governor's dismissal comes just days before Turkey is expected to take delivery of Russian air defense systems, triggering likely US sanctions which could put the lira under renewed pressure.

**Oil prices were higher on Monday as traders weighed geopolitical risks against the impact of the Sino-US trade war on the global economy, although last week's better-than-expected US jobs data offered some support.** Brent crude futures were up 0.20% at \$64.36. US West Texas Intermediate (WTI) was up 0.35% at \$57.71 a barrel. Both oil benchmarks fell last week as concerns about a slowing global economy outweighed risks to supply. Brent fell more than 3% and WTI shed more than 1.5%.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—11:30	Eurozone Sentix Investor Confidence	<b>0.3</b>	<b>-3.3</b>
USD—22:00	US Consumer Credit MoM	<b>15.2b</b>	<b>17.5b</b>

**Tuesday:** *Swiss Unemployment Rate, AU Business Confidence, US Fed Chair Powell speaks, Canada Housing Starts and Building Permits*

**Wednesday:** *NZ FPI, AU Consumer Sentiment, UK GDP and Manufacturing Production, UK NIESR GDP Estimate, Canada BoC Policy Decision and Press Conference, Fed Chair Powell testifies, US FOMC Meeting Minutes*

**Thursday:** *UK BoE Financial Stability Report, US CPI MoM, US Fed Chair Powell testifies*

**Friday:** *China Trade Balance, US PPI MoM*



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CURRENCIES	LAST	1D	YTD
DXY	97.242	-0.05%	1.11%
EUR/\$	1.1224	-0.01%	-2.12%
GBP/\$	1.2513	-0.06%	-1.89%
AUD /\$	0.6989	0.13%	-0.85%
NZD/\$	0.6647	0.29%	-1.07%
\$/JPY	108.35	0.11%	1.24%
\$/CAD	1.3071	0.08%	4.33%
\$/CHF	0.9917	-0.01%	-0.97%
\$/SEK	9.4338	0.10%	-6.15%
\$/NOK	8.6154	0.04%	0.30%
\$/DKK	6.6494	-0.01%	-2.08%
\$/TRY	5.7538	-2.19%	-8.07%
EUR/GBP	0.8970	-0.08%	0.22%
EUR/JPY	121.61	0.12%	3.47%
EUR/CHF	1.1130	0.01%	1.13%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1407.19	0.55%	9.72%
Silver Spot \$/Oz	15.07	0.49%	-2.73%
Platinum Spot \$/Oz	812.70	0.29%	2.14%
Palladium Spot \$/Oz	1564.38	-0.43%	23.98%
COPPER \$/lb	266.60	0.19%	0.81%
WTI \$/bbl	57.71	0.35%	27.09%
BRENT \$/bbl	64.36	0.20%	19.63%

## EQUITIES & BONDS

**Asian shares were a sea of red on Monday after strong US job gains tempered expectations the Fed will deliver a large rate cut.** Share sentiment was also dampened by US investment bank Morgan Stanley's decision to reduce its exposure to global equities due to misgivings about the ability of policy easings to offset weaker economic data. E-minis for the S&P500 declined 0.25%. In a rare occurrence, every market across Asia was in the red on Monday. MSCI's broadest index of Asia-Pacific shares outside Japan lost 1.4%. Japan's Nikkei faltered 1%. Chinese shares were heavily sold off with the blue-chip index down 2.2% and Hong Kong's Hang Seng index down 1.8%. South Korea's KOSPI was off 2.1% and Australian shares slipped about 1.2% to a 5-week low. Expensive valuations and pressure on earnings were among the reasons for the downgrade, Sheets said, while the bank increased its exposure to emerging markets sovereign credit and safe haven Japanese government bonds. Since the start of the year, global equities have generally been bolstered by expectations that central banks will keep interest rates at or near record lows to boost economic growth.

**US stocks dipped on Friday, as the S&P 500 snapped a 3-day streak of record closes, following an unexpectedly strong US payrolls report that led investors to reassess how dovish a stance the Fed may take at its next meeting.** The US Labor Department data showed nonfarm payrolls rose by 224,000 jobs in June, the most in five months, and solidly beating economists' expectation of 160,000 additions. Traders sharply scaled back their expectations of a rate cut of



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## EQUITIES & BONDS

half a percentage point by the central bank at its next policy meeting on July 30-31, although confidence remained high the Fed would cut rates by 25 basis points. Stocks slumped in May as trade talks between the US and China were at a standstill and economic data began to point to a slowing. However, equities have rallied since June as the Fed and other global central banks signaled they were becoming more dovish. The jobs report also pointed to slowing wage growth and mounting evidence that the economy was losing momentum, which could still give the Fed enough of a cushion to cut rates at the end of the month. The Fed, in its semiannual report to Congress, repeated its pledge to “act as appropriate” to sustain the economic expansion, and said while US economic growth continued “at a solid pace” in the first half of the year, it likely weakened in recent months as higher tariffs weighed. Shares of banks, which have been under pressure from falling benchmark debt yields in recent weeks, rose 0.73% and helped drive a 0.38% gain in financials, one of the few bright spots among S&P sectors. The defensive names such as real estate, utilities and consumer staples - each lost ground as a rise in US Treasury yields served to make the dividend-paying companies less attractive. Trading volumes were light at the end of a holiday-shortened week as markets were shut on Thursday for the Independence Day holiday. About 5.08bn shares changed hands in US exchanges, compared with the 6.8bn-share daily average over the last 20 sessions, the lowest volume day of the year for a full trading session.

**In the MENA region, Saudi stocks fell on Sunday in response to a fall in profits at food company Almarai and weakness in blue-chip stocks.** The Kuwait index rose for the seventh straight session buoyed by the recent MSCI move to upgrade Kuwaiti stocks to emerging market.

## COMPANY NEWS HEADLINES

- BMW board member Oliver Zipse, a 55 year-old company veteran, is the front runner to become the carmaker's new chief executive, sources said on Friday after Harald Krueger announced he would not stay on beyond April 2020.
- Volkswagen will create joint ventures and help finance battery production to persuade sceptical cell suppliers to back its aggressive push for mass producing electric vehicles, board member Stefan Sommer told Reuters.
- China's top search engine operator Baidu Inc has joined hands with Zhejiang Geely Holding Group and Japan's Toyota Motor Corp to cooperate on areas related to artificial intelligence (AI) amid a push for self-driving cars.
- Norwegian oil and gas firm Equinor ASA on Sunday said it will sell a 16% stake in Lundin Petroleum AB for about \$1.56bn, and in return acquire an additional 2.6% stake in Johan Sverdrup oilfield.
- Mining company Power Resources Group (PRG) said on Friday it was buying Metalysis, a British high-tech specialist which was backed by asset manager Neil Woodford, out of administration.
- Acacia Mining on Monday reported a 19% jump in gold production for the second quarter as output from its Tanzania mine improved, adding pressure on majority shareholder Barrick Gold to revise its buyout proposal.

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DOW JONES	26922.12	-0.16%	15.41%
S&P 500	2990.41	-0.18%	19.29%
NASDAQ	8161.79	-0.10%	23.01%
S&P/TSX	16541.99	-0.28%	15.49%
EUROPE	LAST	1D	YTD
STXE 600	390.11	-0.72%	15.54%
FTSE 100	7553.14	-0.66%	12.26%
CAC 40	5593.72	-0.48%	18.24%
DAX	12568.53	-0.49%	19.03%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6672.20	-1.17%	18.17%
NIKKEI 225	21534.35	-0.98%	7.59%
TOPIX	1578.40	-0.89%	5.64%
CSI 300 (China)	3802.79	-2.32%	26.31%
MENA	LAST	1D	YTD
Saudi Arabia	8811.11	-0.40%	12.58%
Abu Dhabi	5003.29	0.08%	1.79%
Dubai	2648.59	-0.45%	4.70%
Qatar	10518.20	-0.46%	2.13%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0182	-0.0156	-0.6660
Germany	-0.3800	-0.0170	-0.6220
U.K.	0.7060	-0.0320	-0.5710
Australia	1.3200	0.0380	-0.9980

## TOP SELECTED NEWS

### German exports rise in May but fail to claw back April's slump

(Reuters) German exports rebounded more strongly than expected in May but failed to fully recover from a slump a month earlier as trade conflicts and Britain's expected departure from the EU cool Europe's largest economy. Exports grew by 1.1% on the month in May, data from the Federal Statistics Office showed on Monday, surpassing the 0.5% rise forecast in a Reuters poll. In April, exports fell by 3.4%. Imports fell 0.5% on the month in May. The upshot was a rise in the trade balance to 18.7bn euros (\$20.99bn) from 16.9bn in the prior month. Separate Statistics Office data showed industrial output increased by 0.3% on the month, undershooting the forecast for a 0.4% rise.

### UK firms cut investment plans as Brexit alarm hits new high: survey

(Reuters) British companies are more worried about Brexit than at any time since the 2016 referendum decision to leave the European Union and they plan to reduce investment and hiring, a survey of chief financial officers showed on Monday. The survey conducted by Deloitte, a financial advisory firm, found that 83% of the CFOs believed that leaving the EU would hurt Britain's long-term business environment. Only 4% said it was a good time to take on more balance sheet risk, the lowest percentage since the collapse of Lehman Brothers in 2008 which helped trigger the



## TOP SELECTED NEWS

financial crisis. Britain's economy has slowed sharply after a strong start to 2019 when companies were rushing to prepare for the original Brexit date in March which has been delayed until Oct. 31. Surveys published last week suggested the economy shrank in the second quarter and Bank of England Governor Mark Carney warned of the growing risks from a no-deal Brexit and from an escalation of trade tensions in the world economy.

### **US Fed easing could prompt first China rate cut in four years - analysts**

(Reuters) China's central bank could cut its benchmark policy rate for the first time in four years if the US Federal Reserve delivers a widely expected cut in late July, analysts say, as Chinese policymakers step up support for the slowing economy. Market watchers, however, believe the People's Bank of China (PBOC) is more likely to follow any US rate cut by lowering its key short-term money market rates. It would not be the first time the PBOC has followed the Fed's lead. In 2017 and 2018, the bank raised short-term money rates hours after US hikes, although in more modest and symbolic moves of 5 to 10 bps. While Chinese officials continue to downplay the likelihood of more aggressive easing, the economy has been slow to respond to a host of earlier stimulus measures, while the US-China trade war is growing longer and costlier. Some analysts believe GDP growth is nearing the lower end of the government's 2019 target range of 6-6.5%, reinforcing expectations that more support is needed soon.

### **South Korea's Moon urges Japan to remove export curbs**

(Reuters) South Korea's President Moon Jae-in has urged Japan to withdraw export controls on high-tech materials bound for South Korea as a row over forced wartime labor threatened to disrupt global supplies of South Korean memory chips and smartphones. In his first public remarks on Japan's restriction on exports to South Korea, Moon said on Monday a "vicious cycle" of action by the uneasy neighbors, both important US allies, was something both of them should avoid. South Korea's tech giant Samsung Electronics Co and SK Hynix Inc - the world's top memory chipmakers, and suppliers to Apple and China's Huawei Technologies - could face delays if the Japanese measures, which took effect on Thursday, drag on. Japan tightened restrictions on the export of the high-tech materials to South Korea in connection with a dispute over compensation for forced wartime labor.

### **Amazon founder Bezos' divorce final with \$38bn settlement: report**

(Reuters) Amazon.com Inc founder Jeff Bezos' divorce from his wife of 25 years, MacKenzie Bezos, was finalized by a Seattle-area judge on Friday, paving the way for her to receive \$38.3bn worth of Amazon stock, Bloomberg reported. In April, Amazon, the world's biggest online retailer, said in a filing that 4% of its outstanding stock or 19.7mn shares would be registered in MacKenzie Bezos' name after court approval of the divorce. The couple announced their plan to divorce in a joint Twitter statement in January, causing some to worry that Jeff Bezos could wind up with reduced Amazon voting power or that he or MacKenzie would liquidate large position. He retains a 12% stake worth \$114.8bn and remains the world's richest person, Bloomberg said. MacKenzie Bezos has said she would give him voting control of her shares.

### **WeWork plans to raise up to \$4bn in debt before IPO: WSJ**

(Bloomberg) WeWork Cos. plans to raise as much as \$4bn in debt in the next few months ahead of its initial public offering, the Wall Street Journal reported, citing people familiar with the matter. The funds will help the company, which rents office space and desks to workers around the world, drive growth until it's profitable, WSJ reported. The debt offering could raise as much as \$10bn in the next few years, the newspaper said. Goldman Sachs Group Inc., JPMorgan Chase & Co. and possibly other banks are working on the deal, the newspaper reported, adding that WeWork Chief Executive Adam Neumann met Jamie Dimon and David Solomon in recent weeks.

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