

# MARKETS TODAY

Friday, July 12, 2019

## MARKETS IN BRIEF

- U.S. dollar gained some ground helped by better-than-expected inflation data. However, expectations for a 50 bps cut remained high because of Fed Chair Powell's comments. Until the Fed's meeting later this month, the prospect of additional rate cuts will continue ebbing back and forth on each major data release.
- Canadian dollar firmed further near 8-month highs supported by a less dovish stance by Bank of Canada.
- Oil prices hovered near 6-week highs heading for a weekly gain as geopolitical tensions grew. U.S. oil was strongly supported by producers cutting more than half their output because of a tropical storm.
- Germany's 10-year government bonds were set for their biggest weekly selloff since February 2018. German 10-year bond yields hit a 3-1/2 week high of (-)0.25%.
- Italian bonds rallied pushing the premium over Germany to its lowest since May 2018.
- Asian stocks were mixed as concerns over U.S.-China trade war outweighed Fed's potential rate cuts.
- In the U.S., the Dow Jones and S&P 500 rose yesterday to close at record highs as health insurers gained. Dow surpassed the 27000 mark for the first time.

## Powell: Fed has room to cut rates

Fed Chairman Jerome Powell suggested that the central bank has room to ease monetary policy as the tie between the inflation and jobless rates has broken down. "The relationship between unemployment and inflation became weak" about 20 years ago, Powell told the Senate Banking Committee Thursday. "It's become weaker and weaker and weaker." The Fed chief, under pressure from Trump to lower borrowing costs, has made a strong case to reduce rates at the central bank's meeting later this month to offset weakness stemming from a global slump in manufacturing and business confidence linked to trade tensions. Powell stressed that the US economy is "in a very good place." He said the central bank wants "to use our tools to keep it there."

FX & COMMODITIES	LAST	1D
EUR/\$	1.1269	0.13%
GBP/\$	1.2542	0.17%
AUD /\$	0.7000	0.37%
\$/JPY	108.37	0.12%
\$/CAD	1.3028	0.34%
Gold \$	1407.33	0.25%
WTI \$	60.67	0.78%
BRENT \$	67.12	0.90%
AMERICA		
DOW JONES	27088.08	0.85%
S&P 500	2999.91	0.23%
NASDAQ	8196.04	-0.08%
EUROPE		
STXE 600	386.70	-0.12%
CAC 40	5551.95	-0.28%
DAX	12332.12	-0.33%
ASIA PACIFIC		
S&P/ASX 200	6696.50	-0.29%
NIKKEI 225	21685.90	0.20%
CSI 300 (China)	3813.55	0.75%
MENA		
Saudi Arabia	8968.23	0.70%
Dubai	2685.58	-0.06%
Qatar	10613.32	0.59%
BONDS		
U.S. 10-year	2.1219	-0.0159
German Bund 10-yr	-0.2160	0.0090
AU 10-year	1.4380	0.1050

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## U.S. core consumer inflation topping estimates

A key measure of US consumer prices rose more than forecast in June, potentially complicating the Fed's assessment of inflation as policy makers weigh an interest-rate cut as soon as this month. The core CPI, which excludes food and energy, rose 0.3% from the prior month, most since Jan 2018, and 2.1% from a year earlier, data showed Thursday. Both figures topped estimates. The broader CPI climbed 0.1% and 1.6% annually. The report showed broad monthly gains in the core categories, including pickups in costs for shelter, used vehicles, clothing, and home furnishings.

## ECB meeting minutes: More stimulus is needed

ECB policy makers were united in June on the plan to stand ready to provide more stimulus to the euro-area economy, a move that could be followed by interest-rate cuts as soon as this month. A number of reports on the economy have deteriorated since that meeting, which may increase the chance of stimulus sooner rather than later. ECB President Mario Draghi has also toughened his language, saying that if the outlook didn't improve, that would be enough to warrant action.

## OPEC seeing new oil surplus in 2020

A week after OPEC agreed to keep oil production restrained until early next year, the group's first forecasts for 2020 showed it faces an even longer and tougher challenge. The OPEC, which pumps 40% of the world's oil, estimated that it's producing about 560,000 barrels a day more than will be needed next year as the ongoing surge in US shale threatens to deliver another surplus. Supplies from producers outside the cartel will grow by more than twice as much as global oil demand, it forecast.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.30	-0.16%
SOLIDERE—B	6.43	2.88%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.85	-
BLOM BANK	8.00	-
BYBLOS BANK	1.20	-2.44%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The US dollar was steady on Friday, having regained some traction against its peers after stronger-than-expected US inflation data tempered the prospect of an aggressive Fed interest rate cut later this month.** The core US consumer price index excluding food and energy components rose 0.3% in June, the largest increase since January 2018, data on Thursday showed. The signs of a pick-up in underlying inflation, along with separate data on weekly jobless claims showing the labour market remained solid, curbed financial market expectations of a more aggressive 50 basis point cut at the Fed's July 30-31 meeting. Markets are still fully priced for a quarter percentage point cut as US policymakers seek to support a slowing economy. The dollar was little changed at 108.370 yen after rebounding from a low of 107.860 plumbed on Thursday in response to dovish comments from Fed Chairman Jerome Powell, which had revived the chance of a 50 bps cut. The dollar index against a basket of six major currencies stood little changed at 96.929 after retracing much of its losses on Thursday, when it had briefly stooped to a 6-day low of 96.795. The index hit the low after Powell said in a midweek congressional testimony that the Fed was ready to "act as appropriate,"

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## FX & COMMODITIES

hit the low after Powell said in a midweek congressional testimony that the Fed was ready to "act as appropriate," given the US economy was still under threat from disappointing factory activity, tame inflation and a simmering Sino-US trade war. Comments by Chicago Fed President Charles Evans scheduled later on Friday and New York Fed President John Williams due on Monday will provide a chance to gauge how dovish the central bank really is. The US Treasury 10-year yield, which often dictates the direction of the dollar, was at 2.125% after jumping 8 basis points overnight on the strong US inflation data and a weak 30-year bond auction.

The euro was a shade stronger at \$1.1269 but off a high of \$1.1285 scaled on Thursday prior to the US inflation data.

The Australian dollar nudged up 0.37% to \$0.7000, adding to the previous day's modest gains.

**The Canadian dollar firmed against its US counterpart on Thursday, approaching last week's eight-month high, as investors focused on the less-dovish policy guidance coming from the Bank of Canada compared with that of the Fed.** The Canadian dollar was trading 0.34% higher at 1.3028 to the greenback, an 8-month high.

**Oil prices hovered near 6-week highs on Friday and was on track for a weekly gain as US oil producers in the Gulf of Mexico cut more than half their output because of a tropical storm and as tensions continued to simmer in the Middle East.** Brent crude futures were up 0.9%, at \$67.12 per barrel. The international benchmark settled down 0.7% on Thursday after hitting its highest since May 30 at \$67.65. US West Texas Intermediate (WTI) crude futures were up 0.78%, at \$60.67 a barrel. In the previous session, the US benchmark rose to as much as \$60.94, its highest since May 23. Brent prices have climbed 4.4% this week, while WTI prices rose 5.4%. Both the benchmark crudes posted declines last week. By Thursday, oil companies in the Gulf of Mexico had cut more than 1mn bpd of output, or 53% of the region's production, due to Tropical Storm Barry which could make landfall Saturday on the Louisiana coast. The storm was forecast to become a category one hurricane with winds of at least 74 miles per hour (119 km per hour).

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—12:00	Eurozone Industrial Production MoM	0.20%	-0.50%
USD—15:30	US PPI MoM	0.10%	0.10%
USD—15:30	US Core PPI MoM	0.20%	0.20%

**Next Week:** China GDP, Fixed Asset Investment, Industrial Production, NZ CPI QoQ, AU RBA Policy Meeting Minutes, UK Jobs Report, German ZEW Economic Sentiment, US Retail Sales, US Industrial Production, US Fed Chair Powell speaks, UK CPI, Eurozone CPI, AU Jobs Report, UK Retail Sales, Canada Retail Sales, US Consumer Sentiment

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CURRENCIES	LAST	1D	YTD
DXY	96.929	-0.12%	0.79%
EUR/\$	1.1269	0.13%	-1.73%
GBP/\$	1.2542	0.17%	-1.66%
AUD /\$	0.7000	0.37%	-0.70%
NZD/\$	0.6683	0.33%	-0.54%
\$/JPY	108.37	0.12%	1.22%
\$/CAD	1.3028	0.34%	4.67%
\$/CHF	0.9886	0.14%	-0.66%
\$/SEK	9.3686	0.14%	-5.50%
\$/NOK	8.5257	0.16%	1.35%
\$/DKK	6.6262	0.14%	-1.73%
\$/TRY	5.6785	-0.08%	-6.85%
EUR/GBP	0.8985	0.03%	0.05%
EUR/JPY	122.13	-0.02%	3.03%
EUR/CHF	1.1141	0.02%	1.03%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1407.33	0.25%	9.73%
Silver Spot \$/Oz	15.13	0.07%	-2.34%
Platinum Spot \$/Oz	824.64	0.09%	3.64%
Palladium Spot \$/Oz	1555.40	-0.47%	23.27%
COPPER \$/lb	269.20	0.17%	1.80%
WTI \$/bbl	60.67	0.78%	33.60%
BRENT \$/bbl	67.12	0.90%	24.76%

## EQUITIES & BONDS

Germany's 10-year government bonds were set for their biggest weekly selloff since February 2018 on Friday as signs of economic strength in the US and parts of Europe suggested fears of economic pessimism may be overdone. German 10-year bond yields hit a 3-1/2 week high of minus 0.25% on Friday, up 1.5 bps on the day and 10 bps on the week. German bund futures were 24 ticks lower in early European trade at 171.58.

Italian bonds rallied as traders snapped up the country's second debt offering this week, in a hunt for some of Europe's highest yields. The premium investors pay for the nation's securities over Germany fell to the lowest since May last year after the latest auction drew solid demand. Italian debt has been the main beneficiary this month of expectations that the ECB will ease monetary policy. Italian yields are the highest in the euro-area after Greece, drawing investors searching for positive returns as much of Europe's debt turns negative. The government sold 5.5bn euros (\$6.2bn) of 3- and 7-year bonds, matching the upper end of a targeted range.

**Asian shares shuffled between small losses and gains on Friday as investors awaited China trade, lending and growth data, and as worries over Sino-US trade tensions deflated optimism rooted in expectations of a Fed rate cut this month.** But while an anticipated Fed cut did little to spur gains in Asian markets, European equities were expected to open higher. Later on Friday, China will release June trade data, with analysts expecting exports to have fallen as

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## EQUITIES & BONDS

weakening global demand and a sharp hike in US tariffs took a heavier toll on the world's largest trading nation. China is also due to release lending data on Friday, while Q2 GDP figures are scheduled for Monday. The world's second-largest economy is expected to have slowed to its weakest pace in at least 27 years, raising hopes for more stimulus to fend off a sharper slowdown. MSCI's broadest index of Asia-Pacific shares outside Japan, which moved in a narrow range through the day, was flat in the afternoon. Chinese shares rose, with the CSI300 adding 0.75%. Australian shares dipped 0.29% and Japan's Nikkei index started the day with small losses, but ended 0.2% ahead.

**In the US, the Dow and S&P 500 rose on Thursday to close at record highs as health insurers gained after the Trump administration scrapped a plan designed to rein in prescription drug prices, while financial shares climbed with bond yields.** A 5.5% gain in UnitedHealth Group Inc helped the Dow close above 27,000 points for the first time. Cigna Corp surged 9.2%. The abandoned proposal would have required health insurers to pass on billions of dollars in rebates they receive from drug-makers to Medicare patients. On the flip side, drug-makers such as Merck & Co Inc and Pfizer Inc dropped following the news, and the Nasdaq biotech index was down 1.5%. Merck ended down 4.5% while Pfizer was down 2.5%. The S&P 500 healthcare index ended flat. The S&P 500 traded above 3,000 for a second day in a row but again failed to close above that milestone, suggesting investor cautiousness. Helping to support stocks were comments from Fed Chairman Jerome Powell, which supported investor expectations for an interest-rate cut. Iron Mountain slumped after Bank of America Merrill Lynch downgraded the document storage company's shares to "underperform," citing recent declines in recycled paper pricing.

**In the MENA region, the Saudi index rose on Thursday as nearly all its banks surged ahead of earnings announcements.** Egypt index dropped sharply with most blue-chips declining. The Saudi index gained 0.7% with 10 of its 11 banks rising. Investors will be entitled to the next dividend pay-out as of Thursday.

## COMPANY NEWS HEADLINES

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- Nike Inc said on Thursday it will open a manufacturing facility in Goodyear, Arizona, with a likely investment of at least \$184mn, going ahead with the site after the state of Arizona last week withdrew an incentive package following the footwear maker's cancellation of a controversial sneaker.
- Apple Inc this week restored a software application to its App Store that let parents control their children's iPhone usage after removing it in February, the company said on Thursday.
- Large US grain merchants Cargill Inc and Archer Daniels Midland Co have reached a deal to swap some of their grain elevators in the US Midwest in a deal expected to close later this summer, both companies said on Thursday.
- WPP said on Friday US-based private equity firm Bain Capital would buy a 60% stake in Kantar, valuing the data analytics unit at about \$4bn in the proposed deal.
- Anadarko Petroleum Corp shareholders will vote Aug. 8 on the oil and gas producer's planned \$38bn sale to Occidental Petroleum Corp - the biggest oil and gas deal of the year.
- Air China Ltd , China's flagship carrier, will buy 20 A350-900 jets from Airbus SE, both companies said, bolstering the European planemaker's order book for wide-body jets against Boeing Co amid Sino-US trade tensions.

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AMERICA	LAST	1D	YTD
DOW JONES	27088.08	0.85%	16.12%
S&P 500	2999.91	0.23%	19.67%
NASDAQ	8196.04	-0.08%	23.52%
S&P/TSX	16527.90	-0.21%	15.40%
EUROPE	LAST	1D	YTD
STXE 600	386.70	-0.12%	14.53%
FTSE 100	7509.82	-0.28%	11.62%
CAC 40	5551.95	-0.28%	17.36%
DAX	12332.12	-0.33%	16.79%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6696.50	-0.29%	18.60%
NIKKEI 225	21685.90	0.20%	8.35%
TOPIX	1576.31	-0.15%	5.50%
CSI 300 (China)	3813.55	0.75%	26.67%
MENA	LAST	1D	YTD
Saudi Arabia	8968.23	0.70%	14.58%
Abu Dhabi	5052.43	0.51%	2.79%
Dubai	2685.58	-0.06%	6.16%
Qatar	10613.32	0.59%	3.05%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.1219	-0.0159	-0.5623
Germany	-0.2160	0.0090	-0.4580
U.K.	0.8360	0.0780	-0.4410
Australia	1.4380	0.1050	-0.8800

## TOP SELECTED NEWS

### US to seek rollback of Indian tariffs-Indian government source

(Reuters) US will seek rollback of Indian tariffs imposed on some agricultural products such as almonds when the two sides meet on Friday, a senior Indian government source told Reuters. A delegation led by Assistant US Trade Representative for South and Central Asia, Christopher Wilson, will meet Indian officials to try to re-start negotiations on the tariffs, which were response to the US removing some trade privileges from Indian products. US President Donald Trump has been putting pressure on India to do more to open its markets, saying this week on Twitter that its high tariffs were "unacceptable".

### Brazil pension reform helps improve inflation outlook, says central bank chief

(Reuters) Brazil Central Bank President Roberto Campos Neto on Thursday welcomed the approval by Congress of a landmark overhaul of the country's pension system, saying the reforms help create a benign outlook for inflation. In an interview with the GloboNews television channel, Campos Neto said Wednesday's resounding vote by lower house lawmakers represented an important moment for the economy and improved the perception of Brazil in the eyes of investors.



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## TOP SELECTED NEWS

### **Deutsche Bank's 1MDB probe adds to lengthy legal issues list**

(Bloomberg) Deutsche Bank AG chief Christian Sewing had barely finished relaying the news about his huge restructuring to investors and the bank's embattled employees when a fresh set of reputational woes surfaced. The US Department of Justice is investigating Deutsche Bank as part of a broadened probe of Malaysia's scandal-plagued 1MDB investment fund, a person with knowledge of the matter said. While authorities haven't accused Deutsche Bank of wrongdoing, it's an unwelcome development for Sewing, who has said that the firm has stabilized and that it's past the bulk of its legal issues. In another blow to the bank's image, it was revealed that Jeffrey Epstein had been a recent client of Deutsche Bank. The lender is said to have severed business ties with the financier earlier this year, just as US authorities were preparing to charge him with operating a sex-trafficking ring of underage girls.

### **VW said to invest in Ford-backed Argo AI at \$7bn valuation**

(Bloomberg) Volkswagen AG will invest in Ford Motor Co.'s autonomous-car partner Argo AI at a valuation of about \$7bn as two of the world's largest automakers expand an alliance formed earlier this year, according to people familiar with the matter. In addition to backing the Ford affiliate, VW will fold its Audi division's Autonomous Intelligent Driving unit into Argo, said the people, who asked not to be identified ahead of an official announcement. VW and Ford's chief executive officers have scheduled a briefing for 8 a.m. Friday in New York. Representatives for VW, Ford and Argo declined to comment. VW and Ford also are expected to announce they'll cooperate on electric vehicles, after already having agreed to a commercial van and mid-size truck tie-up in January.

### **Trump warns Facebook over its plan to create a digital currency**

(Bloomberg) President Donald Trump on Thursday night warned Facebook Inc. over its plan to create a digital currency, the Libra, a move that poses a new obstacle to the company's cryptocurrency ambitions. "Facebook Libra's 'virtual currency' will have little standing or dependability. If Facebook and other companies want to become a bank, they must seek a new Banking Charter and become subject to all Banking Regulations, just like other Banks," Trump said in a series of posts on Twitter. In the tweets, the president also expressed skepticism of digital currencies in general. "I am not a fan of Bitcoin and other Cryptocurrencies, which are not money, and whose value is highly volatile and based on thin air," Trump wrote. "Unregulated Crypto Assets can facilitate unlawful behavior, including drug trade and other illegal activity."

### **Boeing reshuffles management of grounded 737: memo**

(Reuters) Boeing Co has reassigned the head of its next airplane project to run the troubled 737 program, according to a memo seen by Reuters on Thursday, as the grounding of its 737 MAX in the wake of two accidents commands the US planemaker's full attention. Kevin McAllister, chief executive of Boeing's commercial airplanes division, stressed in the memo that the so-called new mid-market airplane (NMA) project would remain as a program.

### **Italy's economy minister hopes Atlantia will buy stake in Alitalia**

(Reuters) Italian Economy Minister Giovanni Tria said on Friday he hoped infrastructure group Atlantia would buy a stake in Alitalia, the troubled airline company the government is struggling to rescue. "I think that Atlantia would be a strong partner," Tria said in an interview with Italian daily La Stampa. "Atlantia's involvement (in the rescue plan) would be desirable." After meeting on Thursday, Atlantia's board said it had asked Chief Executive Giovanni Castellucci to look into Alitalia's industrial plan. Atlantia is controlled by the Benetton family.

### **Britain's Cornish Lithium turns to crowd funding**

(Reuters) Cornish Lithium, a battery minerals firm set up by a former City analyst, on Friday became the first British miner to launch a crowd funding campaign as it seeks play a role in securing strategic mineral supplies. Britain's mining industry is regarded by many as a thing of the past but a handful of companies are trying to revive it, particularly for the extraction of battery minerals, after government backing for a greener economy and less polluting transport.

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