

# MARKETS TODAY

Friday, July 19, 2019

## MARKETS IN BRIEF

- U.S. dollar was on the defensive following comments from Fed officials yesterday confirming that the Fed remained on track to cut rates more the one time.
- However, market risk appetite lifted up weighing on safe-haven assets. U.S. stocks closed higher yesterday and Asian stocks followed same pace today.
- Spot Gold retreated after hitting earlier today \$1453, its highest since May 10, 2013 (more than 6-year high).
- Australian dollar firmed after touching \$0.7082, its highest since April 24 (~3-month high)
- British pound traded back above \$1.25 level, away from 27-month lows, as the risks of a no-deal Brexit receded.
- Euro investors eyed highly awaited ECB policy meeting next week.
- Turkish lira weakened as Trump was unclear if there will be sanctions on Turkey or not.
- Oil prices jumped on increased geo-political tensions after the U.S. said that they downed an Iranian drone near Strait of Hormuz.
- In the MENA region, the UAE markets outperformed helped by earnings results of top lenders.

### An inevitable rate cut

Two influential Fed officials on Thursday sharpened their public case for acting, quickly if needed, to support the US economy, reviving bets the central bank may deliver a double-barreled interest rate cut this month. Absent clear-and-present signs of a recession, policymakers are suggesting the US-China trade war is denting US business confidence, and that a global manufacturing slowdown and domestic inflation below the Fed's target of 2% a year may be enough to act quickly and aggressively. John Williams, vice chairman of the Fed's rate-setting committee and head of the regional Fed bank in NY that implements those policies, said when rates and inflation are low, policymakers cannot afford to keep their "powder dry" and wait for potential economic problems.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1261	-0.14%
GBP/\$	1.2522	-0.22%
AUD /\$	0.7066	-0.13%
\$/JPY	107.60	-0.28%
\$/CAD	1.3031	-0.03%
Gold \$	1438.27	-0.54%
WTI \$	55.88	1.05%
BRENT \$	62.79	1.39%
AMERICA		
DOW JONES	27222.97	0.01%
S&P 500	2995.11	0.36%
NASDAQ	8207.24	0.27%
EUROPE		
STXE 600	386.80	-0.22%
CAC 40	5550.55	-0.38%
DAX	12227.85	-0.92%
ASIA PACIFIC		
S&P/ASX 200	6700.35	0.77%
NIKKEI 225	21466.99	2.00%
CSI 300 (China)	3807.96	1.05%
MENA		
Saudi Arabia	9033.83	-0.46%
Dubai	2762.98	1.73%
Qatar	10503.10	-1.04%
BONDS		
U.S. 10-year	2.0378	0.0136
German Bund 10-yr	-0.3260	-0.0160
AU 10-year	1.3530	0.0050

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## U.S.-China trade negotiators reconnecting ... but

US and Chinese senior officials spoke by phone on Thursday in Washington, the second call since the late June summit at which the two sides agreed to a truce in their ongoing trade conflict. US Trade Representative Robert Lighthizer and US Treasury Secretary Steven Mnuchin spoke to the Chinese side earlier, a USTR spokesman confirmed. There were no details released on what was discussed, and the Chinese Ministry of Commerce didn't respond to a faxed request for more information. Reuters reported the phone call earlier.

## Oil prices uptrend is doubtful

The International Energy Agency (IEA) doesn't expect oil prices to rise significantly because demand is slowing and there is a glut in global crude markets, its executive director said on Friday. "Prices are determined by the markets...if we see the market today we see that the demand is slowing down considerably," said IEA's Fatih Birol, in public comments in New Delhi. The IEA is revising its 2019 global oil demand growth forecast down to 1.1mn bpd and may cut it again if the global economy and especially China shows further weakness,

## "No deal" Brexit risks receding

Members of Britain's Parliament moved to stop the next prime minister forcing the country out of the EU without an agreement. It was a clear warning to Boris Johnson, the favorite to become premier, that he will have a fight on his hands if he tries to deliver a no-deal Brexit. On the other hand, the future head of the European Commission said she would be minded to grant Britain an extension to talks on its exit from the EU if London gave good grounds, adding that an orderly departure was important to launch future ties on a good footing.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.43	6.99%
SOLIDERE—B	6.46	7.67%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.85	-
BLOM BANK	7.99	-
BYBLOS BANK	1.20	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The US dollar was on the defensive on Friday after Fed officials bolstered expectations of an aggressive rate cut this month to address weakening price pressures.** At a central banking conference on Thursday, New York Fed President John Williams argued for pre-emptive measures to avoid having to deal with too low inflation and interest rates. Although a New York Fed representative subsequently said Williams' comments were academic and not about immediate policy direction, investors still took his remarks along with separate comments from Fed Vice Chair Richard Clarida as a dovish signal from the central bank. The dollar stood at 107.60 yen, up 0.28% in early trade, having hit a 3-week low of 107.21 on Thursday while the euro also slipped 0.14% to \$1.1261 from \$1.1282. On the week, the dollar is down 0.4% versus the yen and almost flat on the euro. The dollar index, which hit a 2-week low of 96.648, bounced to 96.837. The greenback fell broadly on Thursday after Williams' remarks bolstered bets that the Fed would cut interest rates by 50 basis points, rather than 25 basis points. Williams said when rates and inflation are low, policymakers cannot afford to keep their "powder dry" and wait for potential economic problems to materialize. That is especially

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true with neutral rates that would neither restrict nor accelerate the US economy "around half a percent," he said. When adjusted for inflation, the neutral rate is near the Fed's current policy rate, which is in a range of 2.25-2.50%. Financial markets quickly reacted, with money market futures pricing in almost a 70% chance of a 50 bps cut at its policy meeting on July 30-31 at one point. The odds eased to around 40% after the New York Fed said later that his speech was not about potential actions at the upcoming policy meeting. Still, Williams' rate-cut view was echoed by Fed Vice Chair Clarida, who told Fox Business Network the central bank might have to act early and not wait "until things get so bad".

**The British pound rallied as comments by the EU's chief negotiator rekindled hopes that a compromise may be found over the Irish border, which has been a major hurdle in breaking the Brexit deadlock.** Sterling advanced for a second day after Michel Barnier said he was open to an alternative plan for the border, though he cautioned there would be no easy solutions. Sterling steadied near \$1.25 level, after touching \$1.2382 Wednesday, the lowest since April 2017. Members of Britain's Parliament moved to stop the next prime minister forcing the country out of the EU without an agreement. It was a clear warning to Boris Johnson, the favorite to become premier, that he will have a fight on his hands if he tries to deliver a no-deal Brexit. The pound rose after a mass rebellion from at least 30 Conservative MPs defeated the government and passed measures designed to prevent the next leader closing down Parliament to force through a no-deal split against their wishes.

**The Turkish lira weakened slightly early on Friday, giving up some of the gains made the previous evening as Trump was unclear over whether his administration was looking at imposing sanctions on Turkey.** His comments came following a US decision to remove Ankara from the F-35 fighter jet programme after it began receiving delivery of the Russian S-400 missile defense system last week. The lira was at 5.6322 against the dollar, easing from a close of 5.6150 on Thursday. The currency had firmed late on Thursday from levels around 5.7 earlier in the day after Trump said the US is not currently looking at sanctioning Turkey over its purchase of the Russian defense system. But Trump appeared to contradict that comment later, saying such a move on sanctions was in fact under consideration, sparking confusion at a tense time for relations between the two NATO allies.

**Oil prices rose nearly 2% on Friday as tensions brewed again in the Middle East after a US Navy ship destroyed an Iranian drone in the Strait of Hormuz, a major chokepoint for global crude flows.** Benchmark crude prices were still on track for their biggest weekly decline in seven weeks, having fallen sharply earlier in the week on hopes for easing Middle East tensions as well as demand concerns and a dwindling storm impact.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
GBP—11:30	UK Public Sector Net Borrowing	3.4b	4.5b
CAD—15:30	Canada Retail Sales MoM	0.30%	0.10%
CAD—15:30	Canada Core Retail Sales MoM	0.30%	0.10%
USD—17:00	US Prelim Consumer Sentiment	98.6	98.2

**Next Week:** Canada Wholesale Sales, US HPI, Existing Home Sales, US Richmond Manufacturing Index, Manufacturing and Services PMI for major countries, AU RBA Lowe speaks, ECB Policy Meeting Minutes, US Durable Goods Orders, US Advance GDP

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CURRENCIES	LAST	1D	YTD
DXY	96.837	0.04%	0.69%
EUR/\$	1.1261	-0.14%	-1.80%
GBP/\$	1.2522	-0.22%	-1.82%
AUD /\$	0.7066	-0.13%	0.24%
NZD/\$	0.6778	-0.07%	0.88%
\$/JPY	107.60	-0.28%	1.94%
\$/CAD	1.3031	-0.03%	4.65%
\$/CHF	0.9838	-0.24%	-0.17%
\$/SEK	9.3241	-0.20%	-5.05%
\$/NOK	8.5448	-0.08%	1.12%
\$/DKK	6.6301	-0.14%	-1.79%
\$/TRY	5.6322	-0.25%	-6.09%
EUR/GBP	0.8993	-0.05%	-0.04%
EUR/JPY	121.17	-0.15%	3.85%
EUR/CHF	1.1078	-0.09%	1.60%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1438.27	-0.54%	12.15%
Silver Spot \$/Oz	16.42	0.41%	5.95%
Platinum Spot \$/Oz	855.83	0.37%	7.56%
Palladium Spot \$/Oz	1521.78	-0.46%	20.61%
COPPER \$/lb	276.70	2.10%	4.63%
WTI \$/bbl	55.88	1.05%	23.06%
BRENT \$/bbl	62.79	1.39%	16.71%

## EQUITIES & BONDS

**Asian stocks rose on Friday after a top Fed official cemented expectations of a US interest rate cut later this month, fueling appetite for riskier assets and keeping a cap on the dollar.** In early European trade, pan-region Euro Stoxx 50 futures were up 0.63%, German DAX futures rose 0.63% and Britain's FTSE futures gained 0.46%. In oil markets, crude surged after the US said its navy destroyed an Iranian drone in the Strait of Hormuz, a major chokepoint for global crude flows, raising concerns about supply disruptions out of the region. MSCI's broadest index of Asia-Pacific shares outside Japan was up 1%, bouncing back from the previous day's losses, while Japan's Nikkei advanced 2%.

**US stocks moved higher on Thursday after a slow start as comments from New York Fed President John Williams helped cement expectations for an interest rate cut from the US central bank at the end of the month.** Williams said that when rates and inflation are low, policymakers cannot afford to keep their "powder dry" and wait for potential economic problems to materialize. Before Williams' comments, stocks had been lower as shares of Netflix Inc tumbled 10.3% after the company's quarterly results, which missed targets for new subscribers overseas. Losses in Netflix triggered a 0.9% fall in the communication services sector, which has been one of the best-performing S&P sectors so far this year. Composite added 22.04 points, or 0.27%, to 8,207.24. Among positive earnings reports, shares of Philip Morris International Inc climbed 8.2% after the tobacco company raised its full-year profit outlook. Railroad operator Union Pacific Corp jumped 5.9% after the company's profit came in ahead of expectations. International

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Business Machines Corp rose 4.6% as the company's quarterly profit beat on strong growth in its high-margin cloud business. Morgan Stanley shares rose 1.5% after the bank posted a better-than-expected quarterly profit. The S&P 500 banks index was up 0.9% after three days of losses. UnitedHealth Group Inc shares slipped 2.3% as the insurer said on its conference call that 2019 revenue would not hit its original target.

**In the MENA region, UAE stocks surged on Thursday, outperforming most major Gulf markets, boosted by strong earnings at top lenders.** In Abu Dhabi, the index closed 2.7% higher, buoyed by First Abu Dhabi Bank (FAB), which rose 4% to its highest level since May after posting a 5% rise in Q2 net profit. The bank recorded a net profit of 3.2bn dirhams (\$871mn) in the quarter ending June 30, versus 3.06bn dirhams a year earlier. Similarly, the Dubai index climbed 1.7%, driven by a 2.7% rise in Emirates NBD after the bank announced an 80% jump in Q2 earnings. The results reinforced signs that top banks in the UAE are managing to withstand strains from a sluggish economy and a property downturn in Dubai. Emirates NBD said on Wednesday it had received permission to open 20 more branches in Saudi Arabia.

## COMPANY NEWS HEADLINES

- BMW named Oliver Zipse as its new chief executive late on Thursday, praising his "decisive" qualities after the luxury carmaker lost its edge in electric cars and ceded the premium sales crown to Mercedes under his consensus-seeking predecessor.
- Boutique investment bank Evercore Partners has lost the chance to retain a prime position as an independent advisor for Saudi Aramco's potential \$100bn share sale, as the oil giant revives its postponed listing (Reuters)
- AT&T is exploring options for its Puerto Rico business that could include a potential sale for around \$3bn (Reuters).
- General Motors Co unveiled on Thursday its newly designed mid-engine 2020 Corvette in a splashy tribute to its emblematic sports car, even as the No. 1 US automaker faces mounting pressures in a sluggish and uncertain global sales environment.
- Louis Dreyfus Co. is shaking up top trading jobs as one of the world's largest agricultural commodities merchants seeks to turn around its struggling business, according to internal memos seen by Bloomberg.
- Advertising group Publicis Groupe SA dropped its revenue target for the year as it weathers a prolonged decline in TV and billboard work for consumer goods clients in the US.
- Axalta Coating Systems Ltd., the car-paint maker exploring a sale, has drawn preliminary interest from rival companies, according to people familiar with the matter. (Bloomberg)
- Wirecard, the German payments company, said on Friday it had signed an agreement with supermarket chains ALDI Nord and ALDI Sued to process card payments at all their stores in the country.
- The Mexican attorney general's office said on Thursday it had arrested a retired general who was responsible for security at the state oil company Pemex during the previous administration for allegations of fuel theft.

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AMERICA	LAST	1D	YTD
DOW JONES	27222.97	0.01%	16.70%
S&P 500	2995.11	0.36%	19.48%
NASDAQ	8207.24	0.27%	23.69%
S&P/TSX	16494.23	0.06%	15.16%
EUROPE	LAST	1D	YTD
STXE 600	386.80	-0.22%	14.56%
FTSE 100	7493.09	-0.56%	11.37%
CAC 40	5550.55	-0.38%	17.33%
DAX	12227.85	-0.92%	15.81%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6700.35	0.77%	18.67%
NIKKEI 225	21466.99	2.00%	7.26%
TOPIX	1563.96	1.94%	4.68%
CSI 300 (China)	3807.96	1.05%	26.48%
MENA	LAST	1D	YTD
Saudi Arabia	9033.83	-0.46%	15.42%
Abu Dhabi	5218.13	2.70%	6.17%
Dubai	2762.98	1.73%	9.22%
Qatar	10503.10	-1.04%	1.98%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0378	0.0136	-0.6464
Germany	-0.3260	-0.0160	-0.5680
U.K.	0.7380	-0.0210	-0.5390
Australia	1.3530	0.0050	-0.9650

## TOP SELECTED NEWS

### US labor market strong; mid-Atlantic manufacturing rebounds

(Reuters) The number of Americans filing applications for unemployment benefits increased moderately last week, pointing to still strong labor market conditions despite signs that economic activity was slowing. Other data on Thursday showed factory activity in the mid-Atlantic region rebounded sharply in July, reaching its highest level in a year. That added to recent surveys on manufacturing that have suggested the struggling sector was stabilizing. The improvement in the regional factory surveys likely reflects a decision by Trump not to impose tariffs on Mexican goods after the two countries struck a deal on immigration. Initial claims for state unemployment benefits rose 8,000 to a seasonally adjusted 216,000 for the week ended July 13, the Labor Department said, remaining in the middle of their 193,000-230,000 range for this year. Last week's increase in claims was in line with economists' expectations.

### From beer to pens, South Koreans boycott Japanese brands as diplomatic row intensifies

(Reuters) As soon as supermarket manager Cho Min-hyuk got to work the day after Tokyo imposed curbs on exports to South Korea, he pulled all Japanese products off the shelves. It was Cho's way of taking a stand against Japan in a quickly worsening political and economic dispute between the two east Asian neighbors. Such anger has



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## TOP SELECTED NEWS

prompted a widespread boycott of Japanese products and services, from beer to clothes and travel, disrupting businesses in what was already the worst economic climate for South Korea in a decade. Cho, who manages a 1,500 square meter Purunemart supermarket in Seoul, is taking the hit voluntarily. Over 200 other supermarkets and grocery stores are doing the same, according to Korea Mart Association, a trade group representing them.

### **Goldman Sachs' equities-backed earnings results may face pressure**

(Reuters) Booming stock markets around the globe helped Goldman Sachs offset declines in other businesses last quarter, but those gains may not be sustainable, analysts said. The biggest contributor to the bank's profits was the \$1.5bn it notched from its own equity investments – including \$375mn from electronic trading company Tradeweb – some of which it sold during Q2. Its investment bankers also handled more stock offerings than any rivals during the period, which in turn helped boost revenue from equity trading, where Goldman is also nabbing market share.

### **Morgan Stanley reports drop in profit, but wealth management gains**

(Reuters) Morgan Stanley reported a drop in quarterly profit Thursday, hit by lower market activity amid global trade tensions and expectations for US interest rate cuts. It was the last big US bank to report earnings in a quarter that exposed weaknesses in Wall Street's investment bank and trading businesses. But Morgan Stanley executives downplayed the toll rate cuts could have on profitability and highlighted growth in the bank's wealth management unit. The wealth business, which contributes 44% of MS's revenue, rose 1.9% to \$4.40bn from a year earlier.

### **Microsoft cloud gains fuel growth; forecast signals optimism**

(Bloomberg) Microsoft topped quarterly sales and profit projections, fueled by steady demand for cloud-computing services and a surprisingly strong Windows business. The company's forecast promised robust growth will continue into next year. The software maker pledged "double-digit" percentage gains in sales and operating income for the year that started July 1. Results are getting a boost from larger deals for its Azure web services and brisk adoption of internet-based Office programs. Given Microsoft's "strong ambition," it plans to increase operating expenses by 11% to 12% for the fiscal year, and will raise capital spending to build out data centers, CFO Amy Hood said.

### **Boeing sees \$4.9 billion blow from fallout of 737 Max grounding**

(Bloomberg) Boeing Co. plans to report a \$4.9bn accounting charge with its Q2 results next week, a sign of the widening financial toll from the company's beleaguered 737 Max jetliner. The after-tax write-down, equivalent to \$8.74 a share, covers potential concessions and considerations for airline customers who have been forced to cancel flights and line up replacement aircraft as the Max's grounding enters its fifth month, Boeing said in a statement Thursday. The costs will clip \$5.6bn from revenue and pretax earnings in the quarter.

### **AB InBev explores asset sale after dropping Asia IPO plan: Wall Street Journal**

(Reuters) Anheuser-Busch InBev is considering selling off business units in S. Korea, Australia and Central America to cut its massive debt, after cancelling a planned listing of its Asia-Pacific unit, WSJ reported on Thursday. The world's largest brewer hopes to raise at least \$10bn from asset sales, the WSJ reported. Last week, AB InBev, which was aiming to sell as much as \$9.8bn in Budweiser stock to seek relief from its heavy debt burden, called off its listing of its Asia Pacific unit in Hong Kong citing "several factors, including prevailing market conditions."

### **Trump says looking closely at Amazon's bid on \$10bn Pentagon contract**

(Reuters) US President Donald Trump said on Thursday his administration was looking closely at Amazon.com's bid on a \$10bn cloud contract with the Defense Department after getting complaints from other tech companies. Amazon.com Inc and Microsoft Corp were selected in April to continue competing for the Pentagon cloud computing services that is part of a broad modernization of Pentagon information technology systems. The selection left Oracle Corp and IBM Corp out of the competition for the contract for the Defense Department's Joint Enterprise Defense Infrastructure Cloud, or JEDI.

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