

# MARKETS TODAY

Monday, July 22, 2019

## MARKETS IN BRIEF

- Global markets kicked off the week on a cautious note as traders dialed back expectations on the size of a Fed easing later this month. The Wall Street Journal reported the Fed was likely to cut rates by 25 bps this month, and may make further cuts in the future given global growth and trade uncertainties.
- U.S. stocks closed lower on Friday, followed by a retreat in Asian stocks today.
- Safe-haven demand rose on heightened geo-political tensions in the Middle East. Iran's Revolutionary Guards said they had captured a British-flagged oil tanker in the Gulf after Britain seized an Iranian vessel earlier this month, ratcheting up tensions along a vital international oil shipping route.
- Oil gained as tensions in the Persian Gulf could lead to supply disruptions.
- Gold prices edged higher but a firm dollar might limit further uptrend. The metal closed down 1.43% on Friday after hitting \$1453, its highest since May 2013.
- U.S. dollar benefited from its safe-haven appeal during world conflicts. Plus, it gained support from lower rate cut expectations.
- Euro investors will be cautiously awaiting ECB's policy meeting on Thursday.

### Key ECB policy meeting

Mario Draghi is entering the final three months of his ECB presidency with a plan that will see his influence linger well after he's replaced by Christine Lagarde. The ECB chief will this week lead a policy meeting that's widely expected to set the stage for a September interest-rate cut and a possible resumption of QE. His staff have also started work on a potential revamp of the inflation goal in a move that could make it easier to pursue monetary stimulus for longer. It's a bold strategy at the end of a term that has been defined by radical measures, and it could tie Lagarde's hands well into her own 8-year tenure. Yet with inflation persistently below the ECB's target despite years of massive stimulus, and with the economy now stuttering once again, Draghi is likely to have her tacit endorsement.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1218	-0.03%
GBP/\$	1.2506	0.03%
AUD /\$	0.7034	-0.11%
\$/JPY	107.95	-0.22%
\$/CAD	1.3062	-0.02%
Gold \$	1426.25	0.06%
WTI \$	56.21	1.04%
BRENT \$	63.40	1.49%
AMERICA		
DOW JONES	27154.20	-0.25%
S&P 500	2976.61	-0.62%
NASDAQ	8146.49	-0.74%
EUROPE		
STXE 600	387.25	0.12%
CAC 40	5552.34	0.03%
DAX	12260.07	0.26%
ASIA PACIFIC		
S&P/ASX 200	6691.20	-0.14%
NIKKEI 225	21416.79	-0.23%
CSI 300 (China)	3791.10	-0.44%
MENA		
Saudi Arabia	8957.80	-0.84%
Dubai	2739.26	-0.86%
Qatar	10501.22	-0.02%
BONDS		
U.S. 10-year	2.0569	0.0017
German Bund 10-yr	-0.3160	0.0080
AU 10-year	1.3320	-0.0210

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## U.K. trying to ease tensions with Iran

The UK sought to lower tensions after Iran seized a British oil tanker in the Strait of Hormuz on Friday, an incident that increased friction in one of the world's critical energy chokepoints. The UK demanded the immediate release of the Stena Impero and on Saturday summoned Iran's charge d'affaires, Mohsen Omidzamani, in London. While the government threatened Iran with "serious consequences" and advised U.K. ships to avoid the area, ministers on Sunday sought to dial down the rhetoric.

## Hammond to resign if Johnson wins

Chancellor of the Exchequer Philip Hammond said he'll quit should Boris Johnson become the next UK prime minister, suggesting he'll be a thorn in the new leader's side if he pursues a no-deal Brexit. Hammond told the BBC TV's "Andrew Marr Show" on Sunday that Johnson's requirement that members of his government be prepared to accept leaving the European Union without a deal on Oct. 31 meant he had to rule himself out of staying in the cabinet should the favorite in the contest to succeed Theresa May as premier and Conservative Party leader win.

## Japan's Abe falling short of supermajority

Japanese Prime Minister Shinzo Abe claimed victory in Sunday's upper house election while falling short of securing a supermajority to quickly push through his plans to make the first revisions to the country's pacifist constitution. With the final vote tally not yet complete, Abe's Liberal Democratic Party and its partner Komeito have won at least 69 of the 124 seats up for grabs, public broadcaster NHK projected. Given the 70 seats they hold in the uncontested section of the chamber, this amounts to a simple majority of the total 245 seats.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.55	1.87%
SOLIDERE—B	6.49	0.46%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	3.86	0.26%
BLOM BANK	7.99	-
BYBLOS BANK	1.20	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The US dollar drifted higher on Monday as investors tempered their expectations for deep US interest rate cuts this month and heightened Middle East tensions supported safe-haven assets.** While currency-market focus will center on global central bank decisions scheduled for the next two weeks, traders are also watching for developments in US-China trade negotiations and Wall Street earnings. The dollar broke above 108 yen to hit its highest since Wednesday, though that was still in the middle of the 107-109 range where it has traded for a month. The dollar index, was barely changed at 97.204 after gaining 0.35% last week. Geopolitical fears were dominated by confrontation in the oil trade's most important waterway escalating, with footage showing the Iranian military defying a British warship when it seized a tanker in the Strait of Hormuz on Friday. Pricing for a 50-basis-point Fed cut soared last week after a dovish speech by New York Fed President John Williams. Those expectations later tapered off after a Fed spokesman clarified that the remarks did not refer to "potential policy actions". Priced-in forecasts for a 50-basis-point cut have tumbled from as high as 71% last week to 18.5% on Monday. Earnings due this week from



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## FX & COMMODITIES

bellwether firms such as Caterpillar Inc and Amazon.com Inc will also be closely watched for clues on the health of US economy. In Asia, focus remains on China as Beijing and Washington seek to end a protracted trade war. A report over the weekend by China's Xinhua news agency suggested some local firms were seeking to buy US farm products, a possible sign of progress.

**The euro held near critical chart support around \$1.12, a break of which could lead to further losses.** On the policy front, markets generally expect central banks to either cut rates or keep settings accommodative, starting with the European Central Bank (ECB), which meets on Thursday followed by the Bank of Japan and then the Fed next week.

**The British pound investors are waiting to see if Boris Johnson wins the British Conservative Party's leadership ballot.** The pound held around \$1.2506, staying on a slippery slope since mid-March as fears of a hard Brexit have gathered.

**Gold prices gained on Monday following a steep fall in the previous session as tensions in the Middle East and weaker financial markets supported the metal, while a stronger dollar kept a lid on gains.** Spot gold was up 0.06% at \$1,426 per ounce. The metal hit \$1,452.60 in the previous session, its highest since May 2013, before closing 1.5% lower. Meanwhile, Asia stocks eased on Monday as investors reduced expectations of an aggressive interest rate cut by the Fed. Likelihood of a smaller rate cut from the US central bank lifted the dollar, making gold expensive for investors holding other currencies. Holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, rose 0.72% to 820.49 tonnes on Friday from Thursday.

**Nickel prices retreated on Monday as a buying rally that sent the metal used mostly in making stainless steel to its highest in more than a year, started to lose steam.** 3-month nickel on the London Metal Exchange (LME) fell 0.87% to \$14,730 a tonne, while the most-traded nickel contract on the Shanghai Futures Exchange dropped 3.82% to 113,110 yuan (\$16,448) a tonne. LME nickel prices touched \$15,115 a tonne on Thursday, their highest since June 2018 and up a massive 20% in just two weeks.

**Oil prices rose on Monday on concerns that Iran's seizure of a British tanker last week may lead to supply disruptions in the Middle East and after Libya reported the shut down of its largest oil field.** Brent crude futures climbed 1.49%, at \$63.40 a barrel. The international benchmark rose by \$1 earlier. West Texas Intermediate (WTI) crude futures were up 1.04%, at \$56.21 a barrel. WTI fell over 7% and Brent fell more than 6% last week.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—13:00	German Buba Monthly Report		
CAD—15:30	Canada Whole Sale Sales MoM	0.80%	1.70\$
JPY—18:00	BoJ Gov. Kuroda speaks		

**Tuesday:** RBA Assist Gov. Kent speaks, US HPI, Existing Home Sales, US Richmond Manufacturing Index

**Wednesday:** NZ Trade Balance, Manufacturing and Services PMI for major countries, US New Home Sales, EIA Weekly Report

**Thursday:** AU RBA Lowe speaks, German Ifo Business Climate, ECB Policy Meeting Minutes, US Initial Jobless Claims, US Durable Goods Orders

**Friday:** German Import Prices, US Advance GDP

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CURRENCIES	LAST	1D	YTD
DXY	97.204	0.05%	1.07%
EUR/\$	1.1218	-0.03%	-2.17%
GBP/\$	1.2506	0.03%	-1.94%
AUD /\$	0.7034	-0.11%	-0.21%
NZD/\$	0.6769	0.07%	0.74%
\$/JPY	107.95	-0.22%	1.61%
\$/CAD	1.3062	-0.02%	4.40%
\$/CHF	0.9830	-0.11%	-0.09%
\$/SEK	9.3918	-0.10%	-5.73%
\$/NOK	8.5781	-0.05%	0.73%
\$/DKK	6.6553	-0.05%	-2.16%
\$/TRY	5.6720	-0.23%	-6.75%
EUR/GBP	0.8970	0.05%	0.22%
EUR/JPY	121.10	-0.20%	3.91%
EUR/CHF	1.1028	-0.07%	2.06%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1426.25	0.06%	11.21%
Silver Spot \$/Oz	16.33	0.83%	5.41%
Platinum Spot \$/Oz	849.62	0.49%	6.78%
Palladium Spot \$/Oz	1510.34	0.12%	19.70%
COPPER \$/lb	273.60	-0.60%	3.46%
WTI \$/bbl	56.21	1.04%	23.78%
BRENT \$/bbl	63.40	1.49%	17.84%

## EQUITIES & BONDS

**Asia stocks fell on Monday as investors scaled back expectations of an aggressive Fed interest rate cut.** MSCI's broadest index of Asia-Pacific shares outside Japan was down 0.4%. Japan's Nikkei closed down 0.2% on the more tempered Fed easing views and caution ahead of the domestic earnings season which starts this week. The Shanghai Composite Index was down 0.44%. Hong Kong's Hang Seng dropped 0.9%. South Korea's KOSPI was flat. Global equity markets had rose briefly toward the end of last week after dovish comments by New York Fed President John Williams boosted expectations the central bank would lower rates by 50 bps at its July 30-31 meeting. But stock markets gave back those gains on Friday, with Wall Street shares falling, after the New York Fed walked back Williams' comments by saying his speech was not about potential policy action at the upcoming Fed meeting. Expectations for a larger cut were scaled back even more after the Wall Street Journal reported the Fed was likely to cut rates by 25 bps this month, and may make further cuts in the future given global growth and trade uncertainties.

*Trading hit a fever pitch, with shares rocketing as much as 520%, as China's new Nasdaq-style board for homegrown tech firms debuted on Monday, with valuations exceeding even the expectations of veteran investors braced for a wild ride. All of the first batch of 25 companies - ranging from chip-makers to health care firms - more than doubled their already frothy IPO prices on the STAR Market, operated by the Shanghai Stock Exchange.*

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## EQUITIES & BONDS

**The US stocks fell on Friday following a report that the Fed plans to cut interest rates by only a quarter-percentage point at the end of the month.** The benchmark S&P 500 erased earlier marginal gains after a Wall Street Journal report on the Fed's plans. According to the report, while the US central bank is not prepared to make a bigger 50 bps cut, it may make further rate cuts in the future given concerns about a decline in global economic growth and uncertainty about trade. On Thursday, stocks had risen as comments from New York Fed President John Williams increased hopes of a bigger rate cut. Later that day, however, a New York Fed representative said Williams' comments were not intended to telegraph any hints about upcoming Fed policy actions. Futures market odds of a 50-basis-point cut at the Fed's July meeting soared to 71% late Thursday immediately after Williams' speech but fell to 22.5% on Friday, according to CME Group's Fedwatch tool. For the week, the Dow lost 0.64%, the S&P fell 1.23% and the Nasdaq shed 1.19%. Earlier on Friday, US stocks had edged higher as strong results from Microsoft Corp momentarily buoyed technology stocks. Microsoft shares ended marginally higher, up 0.1%, but the S&P 500 technology index fell 0.55%. Boeing Co shares gained 4.5%, despite the plane-maker's disclosure that it would take a \$4.9bn after-tax hit from the grounding of its 737 MAX, indicating that investors had expected more severe repercussions. Kansas City Southern shares rose 4.6% after the railroad operator posted a better-than-expected quarterly profit. Its shares helped the Dow Jones Transport index gain 0.6%. Shares of American Express Co slipped 2.8% after the credit card issuer warned of higher operating costs this year as it spends heavily on rewards programs to attract customers.

**In the MENA region, the Saudi index declined on Sunday, as political concerns weighed on investors after Iran's seizure of a British-flagged tanker in the Gulf.** Britain called Iran's action against the Stena Impero in the Strait of Hormuz on Friday a "hostile act". Saudi shares shed 0.8%, with financial stocks seeing heavy losses ahead of an expected interest rate cut this month by the US Fed. Other Gulf markets were mixed. Kuwait index dropped 1.20% on profit taking.

## COMPANY NEWS HEADLINES

- Ford Motor Co will lay off about approximately 200 employees in September at a Canadian manufacturing plant in Oakville, Ontario, with the possibility of more layoffs in January, the company said on Friday.
- CBS Corp and AT&T Inc failed to renew their contract, resulting in millions of DirecTV subscribers losing access to CBS programming.
- Lockheed Martin was awarded a \$1.48bn contract to build the THAAD missile defense system for Saudi Arabia, bringing the total value of the deal to \$5.36bn, the Pentagon said on Friday.
- The US Department of Transportation (DOT) on Friday granted American Airlines Group Inc and Qantas Airways Ltd final approval to operate a joint venture after a prior effort was rejected in 2016.
- Bridgewater Associates' flagship Pure Alpha fund lost 4.9% in the first half, one of its worst performances in two decades, the Financial Times reported.
- Mexico's environmental prosecutor Profepa said on Saturday it ordered the partial and temporary closure of mining and transport firm Grupo Mexico's Guaymas facility after it spilled sulfuric acid in the Gulf of California.
- The Ukrainian arm of the world's biggest steelmaker said on Saturday that the state security service had searched its plant in Kryvyi Rih, a week after new Ukrainian President Volodymyr Zelenskiy criticized the management.



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AMERICA	LAST	1D	YTD
DOW JONES	27154.20	-0.25%	16.40%
S&P 500	2976.61	-0.62%	18.74%
NASDAQ	8146.49	-0.74%	22.78%
S&P/TSX	16485.94	-0.05%	15.10%
EUROPE	LAST	1D	YTD
STXE 600	387.25	0.12%	14.69%
FTSE 100	7508.70	0.21%	11.60%
CAC 40	5552.34	0.03%	17.37%
DAX	12260.07	0.26%	16.11%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6691.20	-0.14%	18.50%
NIKKEI 225	21416.79	-0.23%	7.00%
TOPIX	1556.37	-0.49%	4.17%
CSI 300 (China)	3791.10	-0.44%	25.92%
MENA	LAST	1D	YTD
Saudi Arabia	8957.80	-0.84%	14.45%
Abu Dhabi	5235.37	0.33%	6.52%
Dubai	2739.26	-0.86%	8.28%
Qatar	10501.22	-0.02%	1.96%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0569	0.0017	-0.6273
Germany	-0.3160	0.0080	-0.5580
U.K.	0.7340	-0.0250	-0.5430
Australia	1.3320	-0.0210	-0.9860

## TOP SELECTED NEWS

### White House to host meeting with tech executives on Huawei ban: sources

(Reuters) White House economic adviser Larry Kudlow will host a meeting with semiconductor and software executives on Monday to discuss the US ban on sales to China's Huawei Tech, two sources briefed on the meeting said on Friday. Treasury Secretary Steven Mnuchin will also attend the White House event, to which chipmakers Intel Corp and Qualcomm Inc have been invited, the people said. A White House official confirmed the meeting would take place, noting that Google and Micron would attend, but said it had been called to discuss economic matters.

### China will ease policy further, but saving big ammunition for potential shocks-sources

(Reuters) China is keeping all its economic policy tools within reach as the trade war with the United States gets longer and costlier, but still sees more aggressive action like interest rate cuts as a last resort should the dispute get uglier, policy sources say. Heading off a sharper economic slowdown remains Beijing's top priority, though officials fear easing too much could fuel debt and financial risks, according to government advisers involved in internal policy discussions. The Politburo, a top decision-making body of the ruling Communist Party, is expected to meet later this month to discuss economic and policy issues for the rest of 2019.



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## TOP SELECTED NEWS

### **China to impose anti-dumping tax on stainless steel from Indonesia, EU, Japan, South Korea**

(Reuters) China said on Monday it will impose anti-dumping duties on some stainless steel products imported from the EU, Japan, South Korea and Indonesia. Anti-dumping tariffs of 18.1% to 103.1% will be applied to stainless steel billets and hot-rolled stainless steel plates from companies in the EU and the three Asian nations, effective July 23, China's Ministry of Commerce said in a statement.

### **Mexico recession would hasten annual ratings review, S&P warns**

(Reuters) Ratings agency Standard & Poor's could accelerate its annual review of Mexico's sovereign bonds and state oil company Pemex if the economy enters a recession and growth estimates fall for 2020, an S&P analyst said on Friday. The firm links its ratings of Mexico's sovereign debt and Pemex due to their close ties. The next review was planned for March, but that could change if Mexico's economy continues to contract.

### **Julius Baer inflows slow for third straight 6-month period**

(Bloomberg) Julius Baer Group Ltd. inflows slowed for the third straight six-month period, providing a window into the earnings of other wealth managers in Q2. Net new money grew by 3.2% in the first half, missing a medium-term goal of 4% to 6% growth, while rising stock values helped boost assets under management to 412bn Swiss francs (\$412bn). Julius Baer was hit by outflows from Kairos, an Italian subsidiary that its trying to sell.

### **BlackRock profit misses estimates, hit by lower fees for lending stocks**

(Reuters) BlackRock Inc, the world's largest asset manager, took in less cash last quarter as investors moved into lower-cost bond funds, and it made less money lending out stocks. The company, manager of \$6.8 tn in assets, missed analysts' estimates for quarterly sales and profits on Friday, despite attracting \$151bn in new money, as much of that cash moved into lower-fee fixed income funds and accounts used to store cash.

### **Hyundai Motor logs biggest profit gain in seven years on currency, new models**

(Reuters) Hyundai Motor on Monday posted its steepest quarterly net profit gain in 7 years, as a weaker local currency helped lift US income, while new models boosted domestic sales. Solid performance at home and in the US helped offset a sales slump in China. However, the earnings recovery could weaken as Hyundai braces for a potential strike by its S. Korean labor union that could disrupt supplies both at home and overseas, analysts said.

### **AB InBev surprises IPO bankers with \$11.3 billion Asahi deal**

(Bloomberg) As investors pummeled Anheuser-Busch InBev NV's stock and bonds after the Budweiser maker scrapped what would have been the year's largest IPO, little did they know CEO Carlos Brito had a Plan B that's been in the works for months. A week after pulling a share sale of its Asian business, AB InBev on Friday agreed to sell its Australian unit -- part of the portfolio that had been offered to investors -- to Asahi Group Holdings Ltd. A Hong Kong listing would have fetched as much as \$9.8bn; the sale to the Japanese company is valued at \$11.3bn.

### **Petra Diamonds sees lower 2020 production, cuts capital spending**

(Reuters) Petra Diamonds said on Monday it expects production for the full year 2020 to be below current year's output of 3.9mn carats, and forecast lower capital spending for next year. The precious gems miner said it expects full year 2020 diamond output of about 3.8mn carats and capital expenditure to be about \$43mn as it continued to tighten its capital budget. Revenue for the year ended June 30 fell 6% to \$463.6mn due to weaker diamond market.

### **Marvel's 'Avengers: Endgame' to set all-time box office record**

(Reuters) Marvel Studios superhero movie "Avengers: Endgame" will claim the top of the global box office charts by Sunday, distributor Walt Disney Co said. "Endgame" ticket sales will overtake the \$2.789bn collected worldwide by James Cameron's 2009 science-fiction epic "Avatar," Disney said in a statement released on Saturday.



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