

MARKETS TODAY

Friday, July 26, 2019

MARKETS IN BRIEF

- U.S. dollar held on to recent gains on expectations that the Fed might be less aggressive in its meeting next week. Traders will be also watching the Nonfarm payrolls. For today, GDP data will be released at 15:30 LT.
- Euro steadied as Draghi disappointed the markets with his less dovish stance. However, expectations of potential rate cuts remained firm.
- British pound investors started to price in a no-deal Brexit, especially after the EU blocked any attempt for another round of negotiations.
- Australian dollar fell for the 6th day as traders build bets the central bank will keep cutting interest rates following dovish comments this week from Gov. Phillip Lowe.
- Oil prices continued to benefit from ongoing geopolitical tensions in the Middle East.
- Asian stocks were weak today, weighed by disappointing earnings results during the U.S. session.
- U.S. stocks retreated from record highs yesterday following a flurry of downbeat quarterly results from Ford Motor and other companies.

Draghi warning of a worse situation

Mario Draghi is shouting louder than ever for help with the euro-area economy, and still no one is listening. After stating that the outlook is getting "worse and worse," the ECB president said on Thursday it is "unquestionable" that governments will need to pitch in with fiscal measures if conditions keep deteriorating. Draghi's 8-year term, which ends in October, has been marked by negative interest rates, bond purchases and bank loans. While he's promising that the ECB can add more stimulus, and looks poised to do so in September, the comments suggest that the central bank is getting close to the limits of its powers. Yet Germany, which has a budget surplus and which can borrow money at sub-zero rates, doesn't see the problem even as its own manufacturing sector contracts.

| FX & COMMODITIES | LAST | 1D |
|-------------------|----------|---------|
| EUR/\$ | 1.1137 | -0.09% |
| GBP/\$ | 1.2433 | -0.20% |
| AUD /\$ | 0.6935 | -0.23% |
| \$/JPY | 108.64 | -0.01% |
| \$/CAD | 1.3174 | -0.07% |
| Gold \$ | 1419.44 | 0.34% |
| WTI \$ | 56.23 | 0.37% |
| BRENT \$ | 63.48 | 0.14% |
| AMERICA | | |
| DOW JONES | 27140.98 | -0.47% |
| S&P 500 | 3003.67 | -0.53% |
| NASDAQ | 8238.54 | -1.00% |
| EUROPE | | |
| STXE 600 | 389.52 | -0.56% |
| CAC 40 | 5578.05 | -0.50% |
| DAX | 12362.10 | -1.28% |
| ASIA PACIFIC | | |
| S&P/ASX 200 | 6793.39 | -0.36% |
| NIKKEI 225 | 21658.15 | -0.45% |
| CSI 300 (China) | 3858.57 | 0.19% |
| MENA | | |
| Saudi Arabia | 8819.00 | 0.38% |
| Dubai | 2850.69 | -0.18% |
| Qatar | 10631.28 | 0.77% |
| BONDS | | |
| U.S. 10-year | 2.0668 | -0.0142 |
| German Bund 10-yr | -0.3750 | -0.0120 |
| AU 10-year | 1.2290 | 0.0010 |

EU saying NO to Johnson

The enormity of the challenge facing Boris Johnson to break Britain's political deadlock was laid bare in his first days as prime minister, as the EU immediately rejected his demands for a better Brexit deal. Johnson told European Commission President Jean-Claude Juncker that the UK's Withdrawal Agreement with the EU would have to change for it to pass Parliament, according to his office's account of the phone conversation between the two Thursday. Juncker said it was the best and only deal possible.

... France ready to work post-Brexit

France is ready to work with Britain's new Prime Minister Boris Johnson, but Paris and other European capitals will not renegotiate the terms of the hard-fought Brexit deal, a French minister said on Friday. Prime Minister Boris Johnson speaks at the House of Commons in London, Britain July 25, 2019, in this screen grab taken from video. State minister for European affairs Amelie de Montchalin said President Emmanuel Macron would hold Brexit-related talks with Johnson in France in the coming weeks.

U.S. growth data today

The U.S. economy likely grew at its slowest pace in more than two years in the second quarter as an acceleration in consumer spending was probably offset by weak exports and business investment. The anticipated moderation in growth will come against the backdrop of rising risks to the economy's outlook, especially from a trade war between the United States and China as well as slowing growth overseas, which are seen encouraging the Fed to cut interest rates next Wednesday for the first time in a decade.

| BEIRUT S.E. | LAST | 1D |
|-----------------|-------|--------|
| SOLIDERE—A | 6.06 | -3.50% |
| SOLIDERE—B | 6.41 | -0.47% |
| BANK OF BEIRUT | 18.80 | - |
| BANK AUDI SAL | 3.85 | -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 stayed near a 2-week high versus the yen on Friday as investors pared expectations for aggressive Fed interest rate cuts ahead of key US economic data later in the day. In addition, a bounce in Treasury yields and data on Thursday showing a surge in US capital goods orders provided more reasons for traders to reconsider expectations for global monetary easing. With no major events scheduled in Asia on Friday, investors are likely to look to US economic data later in the day. The focus then shifts to Bank of Japan (BOJ) and Fed meetings next week. The Fed is widely expected to cut rates, but there are growing views such a move may be a one-off event, not the start of a major easing cycle. The BOJ is also divided over whether to ease policy, but expectations for a move are low. The dollar traded at 108.64 yen, near a 2-week high of 108.755 yen. The greenback was on course for a weekly gain against the Japanese currency of 0.8%, which would be its biggest since the week ending April 5. Against a basket of six major currencies, the dollar index was at 97.859 after reaching a 2-month high of 98.173. The dollar index was up 0.7% on the week. Data due later on Friday is expected to show US economic growth slowed to 1.8% in Q2 from 3.1%

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FX & COMMODITIES

in the previous quarter, but investors will focus on consumer spending to gauge underlying strength of the economy. The Fed is widely expected to lower its target range of 2.25%-2.50% by 25 basis points at a meeting ending July 31, but expectations for a 50-basis point have waned due to positive economic data. Before the Fed meeting ends, the BOJ announces its policy decision on July 30. Central bank officials are divided on whether to ease policy, but some argue there is no immediate need for action as domestic demand offsets weak exports.

The euro held gains after the ECB kept policy unchanged, disappointing some market participants who had bet on an easing, but sources told Reuters a rate cut at the ECB's next meeting appeared certain. The euro traded at \$1.1137, a mild recovery from a 2-month low of \$1.1102. However, the euro was down 0.6% this week. After the ECB meeting, President Mario Draghi indicated the bank was prepared to cut rates at its next one in September and consider other options for easing. Government bond purchases and a revamped policy message are also likely at the ECB's next meeting, four sources close to the discussion told Reuters.

The British pound has stabilized since Boris Johnson became Britain's new prime minister, but there is still uncertainty about Britain's negotiations to leave the EU. Sterling was down to \$1.2433, and was on course for a 0.5% weekly loss.

The Australian dollar slipped to \$0.6935, and looked set for a 1.4% loss for the week. RBA Governor Philip Lowe on Thursday underlined the bank's easing bias by saying rates would stay low for longer given the board was "strongly committed" to getting inflation back into the 2-3% target range. Analysts suspected this would be a lengthy process, given core inflation has been stuck below 2% for the past three years. Ten-year bond yields edge higher after falling to a record low.

The New Zealand dollar traded at \$0.6652, down 1.5% for the week. The Reserve Bank of New Zealand is also expected to cut rates to 1.25% in August, and to 1% by February next year.

Oil prices edged higher on Friday on worries about Middle East tensions, offset by a flagging global economic growth outlook amid the US-China trade war. Brent crude futures were up 0.14%, at \$63.48 a barrel. They rose 0.3% in the previous session. US WTI crude was up 0.37%, at \$56.23 a barrel, after gaining 0.25% overnight. A global economic growth rut risks deepening, despite expectations that major central banks will cut rates or ease policy. While concerns over Middle East supply disruptions have led to recent price spikes, oil has generally been under pressure from worries about global economic growth amid growing signs of harm from the rumbling Sino-US trade war over the past year.

ECONOMIC CALENDAR

| CURRENCY - TIME (LT) | EVENT | FCAST | PRIOR |
|----------------------|--------------------------------|-------|-------|
| USD—15:30 | US Advance GDP QoQ | 1.80% | 3.10% |
| USD—15:30 | US Advance GDP Price Index QoQ | 4.00% | 0.90% |

Next Week: Bank of Japan Policy Decision + Press Conference, German Prelim CPI, US Personal Spending, US CB Consumer Confidence, China Manufacturing PMI, Australia Inflation, ADP Nonfarm Employment Change, US FOMC Decision + Press Conference, Bank of England Policy Decision + Carney speaks, AU Retail Sales, US Jobs Report

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| CURRENCIES | LAST | 1D | YTD |
|----------------------|---------|--------|--------|
| DXY | 97.859 | 0.04% | 1.75% |
| EUR/\$ | 1.1137 | -0.09% | -2.88% |
| GBP/\$ | 1.2433 | -0.20% | -2.52% |
| AUD /\$ | 0.6935 | -0.23% | -1.62% |
| NZD/\$ | 0.6652 | -0.18% | -1.00% |
| \$/JPY | 108.64 | -0.01% | 0.97% |
| \$/CAD | 1.3174 | -0.07% | 3.51% |
| \$/CHF | 0.9918 | -0.09% | -0.98% |
| \$/SEK | 9.4705 | -0.19% | -6.52% |
| \$/NOK | 8.6982 | -0.26% | -0.66% |
| \$/DKK | 6.7042 | -0.09% | -2.88% |
| \$/TRY | 5.6997 | -0.08% | -7.20% |
| EUR/GBP | 0.8958 | -0.08% | 0.36% |
| EUR/JPY | 120.99 | 0.10% | 4.00% |
| EUR/CHF | 1.1045 | 0.00% | 1.91% |
| COMMODITIES | LAST | 1D | YTD |
| Gold Spot \$/Oz | 1419.44 | 0.34% | 10.68% |
| Silver Spot \$/Oz | 16.44 | 0.19% | 6.12% |
| Platinum Spot \$/Oz | 865.34 | -0.20% | 8.76% |
| Palladium Spot \$/Oz | 1530.27 | -0.07% | 21.28% |
| COPPER \$/lb | 269.50 | -0.31% | 1.91% |
| WTI \$/bbl | 56.23 | 0.37% | 23.83% |
| BRENT \$/bbl | 63.48 | 0.14% | 17.99% |

EQUITIES & BONDS

Asian share prices dropped on Friday following mixed US earnings reports and after the European Central Bank disappointed those investors who had expected an immediate easing while the euro held above two-year lows struck overnight. MSCI's broadest index of Asia-Pacific shares outside Japan dropped 0.53% while Japan's Nikkei lost 0.58%. Shanghai shares ticked down 0.16%.

US stocks fell from record highs on Thursday following a flurry of downbeat quarterly results from Ford Motor and other companies and after European Central Bank chief Mario Draghi's comments disappointed investors hoping for a more dovish stance on monetary policy. The ECB signaled its intention to explore monetary easing but did not cut interest rates, and President Mario Draghi sounded more upbeat on the economy than investors expected. The Fed is widely expected to cut interest rates next week to bolster the US economy, even as the US unemployment rate sits at its lowest in 50 years. Ford Motor Co tumbled 7.45% after the automaker reported a lower-than-expected profit and gave a disappointing full-year earnings forecast. The S&P 500 information technology index fell 0.8%, with the Philadelphia Semiconductor Index falling 1.7% from record highs. Xilinx Inc tumbled 3.4% after the chipmaker gave a weak quarterly forecast, hit by the impact of US restrictions on selling to Huawei Technologies Co Ltd. Facebook Inc dropped 1.9% after the social media giant said new rules and product changes aimed at protecting user privacy would slow its revenue growth into next year. Align Technology plunged 27% and was the biggest decliner on the

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EQUITIES & BONDS

decliner on the S&P 500 after the orthodontic device maker's current-quarter forecast came in below estimates. Broad expectations that the Fed would cut rates to counter the impact of a protracted trade war have helped Wall Street's main indexes scale record levels this month. The S&P 500 and Nasdaq closed at record highs on Wednesday. In extended trade, Amazon.com fell 2% after its quarterly operating income forecast missed analysts' expectations.

In the MENA region, strong corporate earnings helped Saudi index snap five days of losses. The index bounced back 0.4%, with Saudi Arabian Mining Company jumping 6.5%, and Sahara International Petrochemical (SIPCHEM) climbing 5.2% after it reported flat quarterly profit of 210.9mn riyals (\$56.2mn). The Egyptian index dipped 0.8%, with Commercial International Bank (COMI) declining 1.1%. Exchange data on Thursday showed non-Arab foreigners were net sellers of Egyptian stocks.

Euro zone government bond yields began to reverse some of the rises seen after Thursday's European Central Bank meeting, where policymakers left rates unchanged but opened the door to more easing, underwhelming investors who had hoped for more. Commentators were quick to point out that Draghi has delivered everything but the cut — signalling both tiering and the resumption of asset purchases — and euro zone bond yields began to retreat from the rises seen in both the core and the periphery. Germany 10-year bond yields were 2 bps lower at -0.376%, heading back down towards the record low of -0.422%, recorded on Thursday.

COMPANY NEWS HEADLINES

- Warren Buffett's Berkshire Hathaway has raised its stake in Bank of America Corp, the company said in a regulatory filing on Thursday.
- T-Mobile US Inc on Thursday beat analysts' estimates for Q2 net new phone subscribers who pay a monthly bill, boosted by the US mobile carrier's competitive wireless plans aimed at fending off its bigger rivals.
- Two large US industry trade groups urged lawmakers on Thursday to pass a Senate bill to reauthorize the US Export-Import Bank as soon as possible to give exporters a decade of financing certainty.
- The US Justice Department is negotiating with state officials to get them to support a planned settlement that would allow T-Mobile US Inc and Sprint Corp to merge by selling assets to Dish Network Corp, the Wall Street Journal reported, citing people familiar with the matter.
- US regulators announced Thursday they plan to end an exemption for Fannie Mae and Freddie Mac that permits them to back risky mortgages, in a move that would reduce the government's footprint in the housing market, potentially increasing housing costs.
- The biggest investor in defence company Cobham, Silchester International Investors, said late Thursday that it did not consider a \$5bn offer for the company from private equity firm Advent International as 'compelling'.
- Bristol-Myers Squibb, which is set to buy biotechnology company Celgene Corp for \$74bn, posted better-than-expected Q2 profit on Thursday on strong sales of blood thinner Eliquis and rheumatoid arthritis treatment Orenzia.
- Sezzle Inc, a loss-making US buy-now-pay-later lender, plans to list in Australia braving heightened scrutiny of the sector there after the financial crime watchdog ordered an audit of top local rival Afterpay Touch Group Ltd.
- Mexico's Grupo Financiero Banorte, which owns the country's second-largest bank and largest pension fund, reported on Thursday a 21% increase in Q2 net profit versus the same quarter a year earlier.

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| AMERICA | LAST | 1D | YTD |
|-----------------|----------|---------|---------|
| DOW JONES | 27140.98 | -0.47% | 16.35% |
| S&P 500 | 3003.67 | -0.53% | 19.82% |
| NASDAQ | 8238.54 | -1.00% | 24.16% |
| S&P/TSX | 16488.20 | -0.74% | 15.12% |
| EUROPE | LAST | 1D | YTD |
| STXE 600 | 389.52 | -0.56% | 15.36% |
| FTSE 100 | 7489.05 | -0.17% | 11.31% |
| CAC 40 | 5578.05 | -0.50% | 17.91% |
| DAX | 12362.10 | -1.28% | 17.08% |
| ASIA PACIFIC | LAST | 1D | YTD |
| S&P/ASX 200 | 6793.39 | -0.36% | 20.31% |
| NIKKEI 225 | 21658.15 | -0.45% | 8.21% |
| TOPIX | 1571.52 | -0.40% | 5.18% |
| CSI 300 (China) | 3858.57 | 0.19% | 28.16% |
| MENA | LAST | 1D | YTD |
| Saudi Arabia | 8819.00 | 0.38% | 12.68% |
| Abu Dhabi | 5387.77 | 0.57% | 9.62% |
| Dubai | 2850.69 | -0.18% | 12.69% |
| Qatar | 10631.28 | 0.77% | 3.23% |
| 10-YEAR BONDS | LAST | 1D | YTD |
| U.S. | 2.0668 | -0.0142 | -0.6174 |
| Germany | -0.3750 | -0.0120 | -0.6170 |
| U.K. | 0.6980 | -0.0120 | -0.5790 |
| Australia | 1.2290 | 0.0010 | -1.0890 |

TOP SELECTED NEWS

Australia to 'lift veil' on Facebook, Google algorithms to protect privacy

(Reuters) Australia said it would establish the world's first dedicated office to police Facebook Inc and Google as part of reforms designed to rein in the US technology giants, potentially setting a precedent for global lawmakers. The move tightens the regulatory screws on the online platforms, which have governments from the US to Europe scrambling to address concerns ranging from anti-trust issues to the spread of "fake news" and hate speech. Australian Treasurer Josh Frydenberg said the \$5bn fine slapped on Facebook in the US this month for privacy breaches showed regulators were now taking such issues extremely seriously.

China probe finds FedEx may have held back over 100 Huawei packages: report

(Reuters) Chinese authorities investigating FedEx Corp suspect the US delivery company illegally withheld more than 100 packages of Huawei Technologies and that it also violated other laws, state news agency Xinhua reported on Friday. Beijing started a probe into FedEx last month after Huawei said the US delivery firm had diverted parcels intended for it. It came after Huawei was placed by Washington on a blacklist in mid-May that effectively blocks US firms from doing business with the Shenzhen-based telecoms equipment maker.



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TOP SELECTED NEWS

Amazon's push for one-day delivery dents profits, costs up 21%

(Reuters) Amazon.com on Thursday reported its first profit miss in two years and said income would slump in the current quarter, as the online retailer ramps up spending on one-day delivery to spark sales growth. The company also said its investment in faster shipping was starting to pay off, with revenue rising 20% to \$63.4bn in Q2 ended in June. That topped analysts' estimates and the 17% rate of growth that Amazon posted in April.

Apple to buy majority of Intel's modem chip business for \$1 billion

(Reuters) Apple Inc said on Thursday it would buy the majority of Intel Corp's smartphone modem business for \$1bn, months after the chipmaker announced plans to exit the 5G modem chip business. Apple will hold over 17,000 wireless technology patents and take on about 2,200 Intel employees after the completion of the deal, the iPhone maker said. Intel had positioned itself as the sole source of iPhone modem chips over the past year.

Alphabet sales top analyst estimates, calming growth concern

(Bloomberg) Alphabet reported revenue that beat expectations, calming concern about slowing growth at the heart of the internet giant. Q2 sales, excluding payments to partners, came in at \$31.7bn, Alphabet said in a statement. The Google parent also announced a plan to repurchase \$25bn of the company's Class C stock, the biggest buyback in the company's history. Alphabet shares rose more than 9% in extended trading.

SoftBank Group's \$108 billion Vision Fund 2 draws in Microsoft, Apple

(Reuters) SoftBank Group Corp announced on Friday a second Vision Fund aimed at investing in technology firms, saying it has secured pledges totaling about \$108bn from companies including Microsoft Corp. The Japanese conglomerate itself plans to invest \$38bn in the fund, it said in a statement. Others set to join include Apple Inc and Taiwan's Hon Hai Precision Industry Co Ltd (Foxconn) - both investors in the first fund.

Canada's new cannabis licensing favors richer companies, experts say

(Reuters) A new licensing process for legal cannabis producers in Canada limits the ability of smaller companies to attract investment, which could leave the fledgling industry dominated by companies with deep pockets or those who got a foot in the door prior to regulation changes in May, industry executives said.

Starbucks traffic surges, posts best sales growth in three years

(Reuters) Starbucks Corp attracted more customers in the latest quarter on an expanded line up of beverages and food offerings in the US and China, leading the coffee chain to raise its fiscal 2019 profit forecast. Shares of the company rose nearly 6% to \$96.40 after the bell and were on track to hit a record high, after the world's largest coffee chain posted its biggest same-store sales growth in three years.

Renault lowers sales outlook as Europe auto downturn takes hold

(Bloomberg) Renault SA lowered its outlook for full-year sales as the French carmaker grapples with a downturn in the European car market and dismal results from partner Nissan Motor Co. Revenue will be close to last year's level rather than grow, according to a statement Friday. It kept the forecast for a group operating margin of 6% and reported first-half operating income of 1.52bn euros. Renault's results cap a mixed week for the European automobile industry.

Vodafone to create European mobile mast company with potential for IPO

(Reuters) Vodafone said on Friday it would separate its mobile mast infrastructure in 10 European markets into a new organization that it potentially could list, in a move it said would unlock value for shareholders. The world's second largest mobile operator announced the spin off along with a Q1 trading update on Friday that saw group service revenue decline by a better-than-expected 0.2%.

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GLOBAL MARKETS DIVISION



treasury@bankofbeirut.com.lb



+961 1 960 501

PRIVATE BANKING DEPARTMENT



privatebanking@bankofbeirut.com.lb



+961 1 960 531/2/3

