

MARKETS TODAY

Monday, July 29, 2019

MARKETS IN BRIEF

- Investors were cautious ahead of a heavy week for financial markets. It starts tomorrow with Bank of Japan policy meeting, which is expected to send dovish signals. Then on Wednesday, the U.S. Fed will end its 2-day meeting with a highly anticipated 25 bps rate cut. Chairman Powell will speak afterwards. Bank of England will have its policy meeting on Thursday; Gov. Carney will be also speaking. And last and not least, the U.S. will release its monthly official job report on Friday.
- U.S. dollar continued to trade firm helped by better-than-expected GDP data released on Friday.
- British pound resumed its losses as "no-deal" chances are growing. GBP hit \$1.2346, its lowest since Mar 21, 2017 (28-m low)
- Euro remained under the pressure from increased expectations that the ECB will soon need to cut rates to support the economy.
- Oil prices retreated on hopes over easing geopolitical tensions, in addition to a bleak demand outlook.
- Asian shares were weighed today by pessimism over U.S.-China trade talks.
- On Friday, the S&P 500 and the Nasdaq closed at record levels as string of upbeat earnings reports brought buyers back to the market.

Pessimism is back

US and Chinese trade negotiators shift to Shanghai this week for their first in-person talks since a G20 truce last month, a change of scenery for two sides struggling to resolve deep differences on how to end a year-long trade war. Expectations for progress during the 2-day Shanghai meeting are low, so officials and businesses are hoping Washington and Beijing can at least detail commitments for "goodwill" gestures and clear the path for future negotiations. These include Chinese purchases of US farm commodities and the United States allowing firms to resume some sales to China's tech giant Huawei Technologies. Trump said on Friday that he thinks China may not want to sign a trade deal until after the 2020 election in the hope that they could then negotiate more favorable terms.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1122	-0.05%
GBP/\$	1.2349	-0.28%
AUD /\$	0.6909	-0.03%
\$/JPY	108.62	0.06%
\$/CAD	1.3177	-0.08%
Gold \$	1419.66	0.05%
WTI \$	56.05	-0.27%
BRENT \$	63.09	-0.58%
AMERICA		
DOW JONES	27192.45	0.19%
S&P 500	3025.86	0.74%
NASDAQ	8330.21	1.11%
EUROPE		
STXE 600	390.73	0.31%
CAC 40	5610.05	0.57%
DAX	12419.90	0.47%
ASIA PACIFIC		
S&P/ASX 200	6825.80	0.48%
NIKKEI 225	21616.80	-0.19%
CSI 300 (China)	3855.15	-0.09%
MENA		
Saudi Arabia	8859.32	0.46%
Dubai	2846.07	-0.16%
Qatar	10573.18	-0.55%
BONDS		
U.S. 10-year	2.0563	-0.0140
German Bund 10-yr	-0.3920	-0.0160
AU 10-year	1.2090	-0.0200

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U.S. economy slowing

US economic growth slowed less than expected in Q2 as a surge in consumer spending blunted some of the drag from declining exports and a smaller inventory build, which could further allay concerns about the economy's health. But the fairly upbeat report from had some red flags for the 10-year-old economic expansion, the longest on record. Business investment contracted for the first time in more than three years and housing declined for a sixth straight quarter. GDP increased at a 2.1% annualized rate in Q2, stepping down from an unrevised 3.1% pace.

... How far will the Fed go beyond Wednesday's decision?

US central bankers are expected to lower borrowing costs this week for the first time since the depths of the financial crisis more than a decade ago. Whether that inaugurates a series of 0.25% interest rate cuts that could stretch deep into next year, as financial markets are betting, or something more limited is by far the harder decision facing Fed policymakers. No clear consensus from Fed officials about why they need to cut rates in the first place, particularly with the US unemployment rate near a 50-year low and the economy puttering along as the best-in-class performer.

U.K. preparing for No-Brexit deal

UK Prime Minister Boris Johnson's high-level Brexit cabinet holds its first meeting Monday, and will gather every day to ensure the country leaves the EU on Oct. 31. Michael Gove, named to a job that makes him Johnson's top aide, will lead the sessions as the government steps up preparations for a no-deal Brexit, the premier's office said Sunday in a statement. Unless the EU agrees to re-open negotiations, that's the most likely outcome, he said. Johnson's special cabinet of six senior ministers will oversee the revamped exit preparations.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.21	2.48%
SOLIDERE—B	6.15	-4.06%
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 held firm on Monday, staying near a 2-month high against a basket of currencies after better-than-expected US GDP data last week boosted its yield attraction against rival currencies. The US Fed is widely expected to cut interest rates for the first time in more than a decade this week, but such a move is being widely seen as a pre-emptive one to protect the economy from global uncertainties and trade pressures. The dollar index stood little changed at 98.037, after having hit a 2-month high of 98.093 on Friday. US GDP increased at a 2.1% annualized rate in Q2, above forecast of 1.8%, as a surge in consumer spending blunted some of the drag from declining exports and a smaller inventory build. The data pushed up US bond yields and cemented expectations that the Fed will go for a smaller interest rate cut of 25 basis points, rather than 50 bps, to 2.0-2.25%. While US money market futures price in a total of almost 75 bps of cuts by the end of the year to 1.5-1.75%, that still leaves the dollar with the highest interest rates among major currencies.

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FX & COMMODITIES

The Japanese yen rose versus all its Group-of-10 peers as haven demand increased before US-China trade talks this week and policy decisions by the Bank of Japan and Fed. On Friday, the dollar had risen to a 2-week peak of 108.83 yen. Ahead of the Fed, the Bank of Japan is starting its 2-day policy meeting later on Monday. Market players expect the BOJ to send dovish messages and it could try to put on a semblance of easing by changing its forward guidance but refrain from rate cuts and other major policy moves given its lack of policy ammunition. US Treasury Secretary Steven Mnuchin and Trade Representative Robert Lighthizer will meet with Chinese Vice Premier Liu He for talks in Shanghai starting on Tuesday, their first face-to-face meeting since US President Donald Trump and Chinese President Xi Jinping agreed to revive talks late last month. But Trump on Friday offered a pessimistic view of reaching a trade deal with China, saying Beijing may not sign one before the November 2020 election in hopes a Democrat who will be easier to deal with, will win.

The British pound fell to a near 28-month low as a no-deal Brexit seems increasingly likely under new British Prime Minister Boris Johnson. Senior ministers said on Sunday the British government is working on the assumption that the EU will not renegotiate its Brexit deal and is ramping up preparations to leave the bloc on Oct. 31 without an agreement. An opinion poll also showed Johnson's Conservative Party has opened up a 10-point lead over the opposition Labour Party, fuelling speculation that Johnson will call an early election. The pound last traded at \$1.2349, having slipped to \$1.2346 in early trade, its lowest level since March 21, 2017.

The euro remained under pressure after the ECB signaled last week that it is likely to cut interest rates deeper into negative and adopt more easing measures in September to shore up the sagging euro zone economy. The euro stood at \$1.1122, almost flat and not far from Thursday's low of \$1.1101, a trough since May 2017.

The Australian dollar dipped to 1-month low of \$0.6900 and last stood at \$0.6909 following Chinese data on Saturday showing profits earned by the country's industrial firms contracted in June after a brief gain the previous month.

Oil prices fell on Monday as investors fretted over the outlook for global economic growth, while weekend talks between Iran and major powers ended on a generally positive note, suggesting an easing of tensions in the Middle East. Brent crude futures were down by 0.58%, at \$63.09 a barrel. Prices rose 1.6% last week. US West Texas Intermediate crude was down by 0.27%, at \$56.05 a barrel. WTI gained 1% last week.

ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
GBP—11:30	UK Mortgage Approvals	66k	65k
GBP—11:30	UK M4 Money Supply MoM	0.20%	-0.10%

Tuesday: Bank of Japan Policy Decision + Press Conference, German Prelim CPI, US Personal Spending, US CB Consumer Confidence

Wednesday: China Manufacturing PMI, Australia Inflation, ADP Nonfarm Employment Change, US FOMC Decision + Press Conference, Canada GDP

Thursday: China Caixin Manufacturing PMI, Bank of England Policy Decision + Carney speaks, US ISM Manufacturing PMI

Friday: AU Retail Sales, BoJ Policy Meeting Minutes, US Jobs Report

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CURRENCIES	LAST	1D	YTD
DXY	98.037	0.03%	1.94%
EUR/\$	1.1122	-0.05%	-3.01%
GBP/\$	1.2349	-0.28%	-3.18%
AUD /\$	0.6909	-0.03%	-1.99%
NZD/\$	0.6630	-0.09%	-1.32%
\$/JPY	108.62	0.06%	0.99%
\$/CAD	1.3177	-0.08%	3.49%
\$/CHF	0.9924	0.08%	-1.04%
\$/SEK	9.5079	-0.06%	-6.88%
\$/NOK	8.7244	-0.08%	-0.96%
\$/DKK	6.7139	-0.05%	-3.02%
\$/TRY	5.6431	0.43%	-6.27%
EUR/GBP	0.9006	-0.20%	-0.18%
EUR/JPY	120.80	0.12%	4.16%
EUR/CHF	1.1038	0.17%	1.97%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1419.66	0.05%	10.70%
Silver Spot \$/Oz	16.41	0.08%	5.92%
Platinum Spot \$/Oz	868.95	0.43%	9.21%
Palladium Spot \$/Oz	1534.63	0.13%	21.62%
COPPER \$/lb	268.95	0.17%	1.70%
WTI \$/bbl	56.05	-0.27%	23.43%
BRENT \$/bbl	63.09	-0.58%	17.27%

EQUITIES & BONDS

Asian shares slipped on Monday as markets anxiously counted down to a likely cut in US interest rates this week with much riding on whether or not the Fed signals yet more are in the pipeline. E-Minis for the S&P 500 dipped 0.1%. US and Chinese trade negotiators also meet in Shanghai this week for their first in-person talks since a G20 truce last month, but expectations are low for a breakthrough. Data on the weekend showed profits earned by China's industrial firms contracted in June, fuelling concerns that the bruising trade war will drag on economic growth. MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.6% in slow trade. Japan's Nikkei dipped 0.2% and Shanghai blue chips 0.1%. Interest rate futures are fully priced for a quarter-point rate cut from the Fed on Wednesday, with only a small chance of a half-point move. More important will be what the central bank flags for the future, given the market implies 100 basis points of easing over the next year or so.

In the US, robust earnings from Alphabet and Starbucks pushed the S&P 500 and Nasdaq indexes to record highs on Friday, with support from data showing US economic growth slowed less than expected in Q2. The US Commerce Department said GDP increased at an annualized rate of 2.1% in Q2, higher than a 1.8% rate forecast by economists polled by Reuters. The GDP data further solidified wide expectations that the US Fed will cut interest rates at its policy meeting next week. Those expectations have powered a solid run in stocks this month, helping Wall Street scale record levels. The data comes on the heels of ECB President Mario Draghi's speech on Monday, which was less

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dovish than investors had anticipated and led the S&P 500 to post its first loss in the week. Starbucks rallied 8.9% to a record high after the world's largest coffee chain posted its biggest same-store sales growth in three years. Alphabet Inc surged 9.6% after beating Wall Street targets on higher ad sales and growth at its cloud unit, a high-margin business it is leaning more on to drive expansion. Twitter Inc rose 8.9% after it posted better-than-expected quarterly revenue and an uptick in daily users who see advertisements on the site. Their upbeat earnings pushed the S&P 500 communication services index up 3.25%, the most among S&P sectors. For the week, the S&P 500 added 1.7%, the Nasdaq climbed 2.3% and the Dow rose 0.1%. Even under the cloud of uncertainty related to trade conflict, the S&P 500 has risen 21% so far in 2019. Also on Friday, McDonald's Corp jumped as much as 2.1%, briefly hitting a record high after beating quarterly sales expectations at established US restaurants. Amazon.com Inc fell 1.6% and was the biggest drag on the benchmark S&P 500 after the online retailer reported its first profit miss in two years and said income would slump in the current quarter. Intel Corp lost 1.1%, even after the chipmaker gave an upbeat current-quarter forecast and raised its full-year revenue guidance.

In the MENA region, Saudi index rose for the second consecutive session on Sunday, helped by the financial sector. The Abu Dhabi index was weighed by top lender First Abu Dhabi Bank (FAB), bringing an 8-session streak of gains to an end. The Saudi index rose 0.5% with Al Rajhi Bank and Riyadh Bank gaining 1% and 3.1% respectively. National Commercial Bank ended the day 0.6% higher. SABIC, the world's 4th-biggest petrochemicals firm, fell 0.7% after reporting its lowest quarterly profit since late 2009. The market heavyweight blamed the profit drop on lower average selling prices and a decrease in the share of contributions from associates and joint ventures. In Abu Dhabi, the index was the worst performer in the region, losing 0.7% as the UAE biggest lender, FAB, fell 1.1% and telecom Etisalat dropped 0.6%

COMPANY NEWS HEADLINES

- The Justice Department approved T-Mobile US Inc.'s acquisition of Sprint Corp., a deal it rejected under the previous administration, clearing one of the biggest hurdles to a takeover that will reshape the wireless industry.
- US President Donald Trump said on Friday he wanted Apple Inc to build its plants in the US and expects the technology firm to announce it will build one in Texas.
- French drugmaker Sanofi SA said on Friday it had terminated its partnership with Lexicon Pharmaceuticals Inc to develop and manufacture a drug for use with insulin in patients with type 1 and type 2 diabetes.
- Anadarko Petroleum Corp, which is being bought out by rival Occidental Petroleum Corp, reported a 10.4% fall in quarterly adjusted profit on Friday, hit by lower oil and gas prices.
- Elon Musk's Boring Co raised about \$117mn in its latest round of funding from 20 unnamed investors after offering to sell about \$120mn in equity, the company disclosed in a regulatory filing on Friday.
- Australia's competition regulator on Monday opened consultation on a proposed undertaking by Canada's Nutrien to sell three of its regional stores to address concerns over its takeover bid of rural services firm Ruralco.
- Ryanair Holdings Plc on Monday warned fares would fall by 6% in its key summer season this year, in part due to overcapacity in Germany and Brexit fears in the UK, but kept its profit target for the year.

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AMERICA	LAST	1D	YTD
DOW JONES	27192.45	0.19%	16.57%
S&P 500	3025.86	0.74%	20.70%
NASDAQ	8330.21	1.11%	25.54%
S&P/TSX	16531.04	0.26%	15.42%
EUROPE	LAST	1D	YTD
STXE 600	390.73	0.31%	15.72%
FTSE 100	7549.06	0.80%	12.20%
CAC 40	5610.05	0.57%	18.59%
DAX	12419.90	0.47%	17.62%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6825.80	0.48%	20.89%
NIKKEI 225	21616.80	-0.19%	8.00%
TOPIX	1568.57	-0.19%	4.98%
CSI 300 (China)	3855.15	-0.09%	28.05%
MENA	LAST	1D	YTD
Saudi Arabia	8859.32	0.46%	13.19%
Abu Dhabi	5348.50	-0.73%	8.82%
Dubai	2846.07	-0.16%	12.50%
Qatar	10573.18	-0.55%	2.66%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0563	-0.0140	-0.6279
Germany	-0.3920	-0.0160	-0.6340
U.K.	0.6640	-0.0230	-0.6130
Australia	1.2090	-0.0200	-1.1090

TOP SELECTED NEWS

China's industrial profits fall in June, add to fears of slowdown

(Reuters) Profits earned by China's industrial firms contracted in June after a brief gain the previous month, fuelling concern that a slowdown in manufacturing from a bruising trade war will drag on economic growth. China's industrial profits have been softening since the second half of 2018 as the economy slowed and the US-China trade dispute escalated, with many industrial firms putting off business decisions and scaling back manufacturing investment. Economic growth in Q2 slowed to a near 30-year low. Industrial profits fell 3.1% in June from a year earlier to 601.9bn yuan (\$87.5bn), according to data released by the National Bureau of Statistics (NBS) on Saturday, following a 1.1% gain in May. In the first six months, industrial firms earned profits of 2.98tn yuan, down 2.4% from a year earlier, compared with a 2.3% drop in January-May.

Trump says US could tax French wine in retaliation for digital tax

(Reuters) US President Donald Trump threatened to tax French wines on Friday in retaliation for France's recent proposal to levy a tax aimed at big US technology companies. Trump had told French President Emmanuel Macron last week that he was concerned about the proposed digital services tax. "If anybody taxes them, it should be their



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TOP SELECTED NEWS

home Country, the USA. We will announce a substantial reciprocal action on Macron's foolishness shortly," Trump tweeted on Friday. "I've always said American wine is better than French wine!" Later in the Oval Office, Trump told reporters the tax decision was wrong and he threatened the key French export.

Saudi Arabia to start next phase of flour mill privatization

(Reuters) Saudi Arabia's state grain buyer SAGO said it will start the next phase of the sale of its flour mills on Wednesday, which will see pre-qualified bidders perform due diligence and present financial offers. The sale is one of the first privatizations the kingdom is planning as part of a wide-reaching overhaul of its economy. It has attracted interest from some of the world's largest agribusiness firms, including Archer Daniels Midland Co and Bunge Ltd. Still, Saudi Grains Organization (SAGO) in its statement on Sunday did not name successful pre-qualified bidders from the first phase of the process last year.

Investment in UK residential property up 150% despite Brexit

(Bloomberg) The uncertainties of Britain's departure from the EU hasn't stopped investors from backing the UK's residential sector. Total investment volumes in the UK's multifamily sector rose by more than 150% to 6.8bn euros (\$7.6bn) in 2018, according to a report by broker JLL. London helped lead the charge, with investment volume nearly doubling to 2bn euros compared to 2017. That helped the UK capital rise to become the fourth-biggest European city for multifamily investment, behind Berlin, Copenhagen and Paris.

LSE seeks to acquire Refinitiv in deal valued at \$27 billion

(Bloomberg) London Stock Exchange Group Plc is in talks to acquire Refinitiv, the financial data and trading platform provider, in a deal that could be valued at \$27bn and would add fuel to the bourse's fastest-growing business. The exchange would issue shares as part of the transaction and Refinitiv holders may receive a stake of approximately 37%, LSE said early Saturday in London in a statement. The effort is the first major strategic move by LSE CEO David Schwimmer, who joined the 218-year-old exchange from Goldman Sachs Group Inc. last August and has been riding a 40% surge in the stock price this year.

Pfizer plans to merge off-patent drug unit with Mylan

(Bloomberg) Pfizer Inc. plans to combine its off-patent business, which includes Lipitor cholesterol pills and male-impotence drug Viagra, with Mylan NV and form a generic drug giant, according to people familiar with the matter. The deal, if completed, could be announced as early as Monday, said the people, who asked not to be identified because the negotiations are private. Under the potential stock deal, Mylan investors would get a little more than 40% of the new entity and Pfizer investors the rest.

Takeaway.com's possible bid for Just Eat may spark food fight

(Bloomberg) Takeaway.com is in takeover talks with rival Just Eat Plc, a \$5.3bn deal that would mark a fight against rivals including Uber Technologies Inc. The food delivery industry in Europe has been a battleground, with rivals competing on prices and copying each other's business models. The all-share deal that's being considered from Takeaway is another sign the Dutch-based company is intent on taking on its better-known rivals. Food delivery has been one of the fastest growing industries in the tech sector, and investors have been pumping money into startups in a bid to dominate each market.

Sabic profit sinks to lowest in 10 years on chemicals slump

(Bloomberg) Saudi Basic Industries Corp.'s Q2 profit plunged to the lowest level since 2009 as demand for chemicals and plastics declined. The shares fell. Net income dropped to 2.12bn riyals (\$565mn) from 6.7bn riyals a year ago, the biggest petrochemicals maker in the Middle East said in a statement. A downturn in the global economy, including the car industry, has dented demand for plastics and chemicals, leading to a spate of profit warnings at companies such as BASF SE.

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