

# MARKETS TODAY

Monday, June 17, 2019

## MARKETS IN BRIEF

- U.S. started the week strong helped by an upbeat retail sales report released on Friday. However, investors will be focusing on the Fed's decision on Wednesday.
- British pound traders will be also watching Bank of England policy meeting on Thursday amid ongoing Brexit uncertainty.
- Japanese yen edged lower and Treasuries dropped as gains in U.S. stock futures added to positive sentiment fueled by strong U.S. data on Friday.
- However, the overall sentiment in the markets remained subdued in the presence of political tensions on the Middle East and Hong Kong; notwithstanding the unresolved trade disputes between U.S. and China.
- Oil prices edged lower after rising earlier on U.S. threatening to take all actions necessary to guarantee safety in Middle East.
- Asian stocks traded near 1-week lows after the U.S. stocks ended lower on Friday.
- Gulf stock markets extended their losses on Sunday reflecting a cautious mood after Gulf of Oman tankers attacks.
- Spanish 10-year yield dropped to a record low after the bonds rallied for an 8th week, the longest winning streak since 1996.

## Fed's decision this week

The US Fed, facing fresh demands by Trump to cut interest rates, is expected to leave borrowing costs unchanged at a policy meeting this week but possibly lay the groundwork for a rate cut later this year. New economic projections that will accompany the US central bank's policy statement on Wednesday will provide the most direct insight yet into how deeply policymakers have been influenced by the US-China trade war, Trump's insistence on lower interest rates, and recent weaker economic data. Analysts expect the "dot plot" of year-end forecasts for the Fed's benchmark overnight lending rate will show a growing number of policymakers are open to cutting rates in the coming months, though nowhere near as aggressively as investors expect or Trump wants.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1208	0.00%
GBP/\$	1.2578	-0.09%
AUD /\$	0.6871	-0.01%
\$/JPY	108.56	0.00%
\$/CAD	1.3417	-0.02%
Gold \$	1337.54	-0.31%
WTI \$	52.29	-0.42%
BRENT \$	61.90	-0.18%
AMERICA		
DOW JONES	26089.61	-0.07%
S&P 500	2886.98	-0.16%
NASDAQ	7796.66	-0.52%
EUROPE		
STXE 600	378.81	-0.40%
CAC 40	5367.62	-0.15%
DAX	12096.40	-0.60%
ASIA PACIFIC		
S&P/ASX 200	6530.91	-0.35%
NIKKEI 225	21124.00	0.03%
CSI 300 (China)	3654.83	0.00%
MENA		
Saudi Arabia	8886.84	-0.61%
Dubai	2614.03	-0.72%
Qatar	10479.63	-0.34%
BONDS		
U.S. 10-year	2.0959	0.0155
German Bund 10-yr	-0.2560	-0.0010
AU 10-year	1.3880	0.0180

## Johnson's chances growing

Boris Johnson got a boost for his bid to replace British PM May when one of his former rivals backed his candidacy on Monday and said he was almost certain to win the contest. Health Secretary Matt Hancock, who dropped out of the race on Friday after winning just 20 votes in the first ballot of Conservative lawmakers, said Johnson was the best candidate to lead the party. The Brexit crisis could deepen under a new British leader as Johnson, the face of the official Brexit campaign in the 2016 referendum, has promised to lead the UK out of the EU with or without a deal.

## China's central bank injecting funds

China's central bank said on Monday the second phase of a cut in the reserve requirement ratio (RRR) freed about 100bn yuan (\$14.44bn) worth of long term funds. In open market operations, the PBOC also injected 150bn yuan via 14-day reverse repos to "keep liquidity level stable at end-June", the bank said in a statement on its website. The PBOC announced in May that it would implement a reduction of RRRs for some small- and medium-sized banks in three phases, as part of wider efforts to help companies weather a slowdown in the world's second largest economy.

## Deutsche Bank weighing up to \$56 billion bad-bank unit

Deutsche Bank AG is considering setting up a bad-bank unit that could eventually hold as much as 50bn euros (\$56bn) of risk-weighted assets, the Financial Times reported, citing people familiar with the matter. The plan is part of an overhaul of Deutsche Bank's trading operations as CEO Christian Sewing shifts Germany's biggest lender away from investment banking. As part of the revamp, which isn't finalized, Deutsche Bank's equity and rates-trading businesses outside of Europe would be shrunk or closed entirely, according to the FT report.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	5.49	3.98%
SOLIDERE—B	5.37	3.27%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.00	-
BLOM BANK	8.00	-
BYBLOS BANK	1.21	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

**The US dollar held near a 2-week high against its major rivals on Monday ahead of a crucial US Fed meeting that many expect will lay the groundwork for an interest rate cut to bolster the world's largest economy.** While strong US retail sales on Friday reduced the already-low chance of an easing this week and lifted the dollar, investors are betting Fed Chairman Jerome Powell would leave the door open to future rate cuts in light of increasing economic strains. The dollar index versus a basket of six major currencies was little changed at 97.554 after rising to 97.583 on Friday, its highest since June 3. Expectations of an interest rate cut at the Fed's June 18-19 meeting fell from 28.3% on Thursday to 21.7% in the wake of the strong retail data, according to CME Group's FedWatch tool. However, bets for monetary easing at the July meeting remain high at 85%. An escalating trade war between the US and China has rippled through global supply chains in a hit to business investment, factory output and world growth. Yet, the dollar's Fed-driven downside is being tempered by policy easings in other countries. Fears a protracted Sino-US standoff could tip the global economy into recession have prompted rate cuts in many Asian countries, including India,



# MARKETS TODAY

## FX & COMMODITIES

Philippines, Malaysia, New Zealand and Australia. The European Central Bank also recently raised the prospect of even more stimulus, while the Bank of Japan is widely expected to reinforce its commitment to main a massive stimulus program for a while yet. Later on Monday the US Trade Representative's Office will begin seven days of testimony from US companies about President Donald Trump's plan to hit another \$300bn worth of Chinese goods with tariffs. Some traders are watching these hearings, because complaints from US businesses, which bear the cost of duties on goods they import, could sway Trump to delay additional tariff hikes.

The euro was flat at \$1.1208 after shedding about 0.6% on Friday, when it fell to an 8-day trough of \$1.1203.

The Australian dollar was also flat at \$0.6871. It edged up earlier around 0.2% to \$0.6884 but remained within reach of a 5-month low of \$0.6862 set on Friday, when the currency retreated nearly 0.7%.

The New Zealand dollar, which slumped more than 1% during the previous session, traded near a 3-week low of \$0.6488 brushed towards the end of last week.

The dollar was flat at 108.56 yen after edging up 0.15% on Friday.

**Oil prices edged lower after rising earlier following US Secretary of State Mike Pompeo's comments that Washington will take all actions necessary to guarantee safe navigation in the Middle East, as tensions mounted following attacks on tankers last week.** Brent futures dropped 0.18% to \$61.90 a barrel after earlier rising about 0.4%. They gained 1.1% on Friday. US West Texas Intermediate (WTI) crude futures were down 0.42% at \$52.29 a barrel, giving up some of their earlier gains. They rose 0.4% in the previous session. Prices had jumped as much as 4.5% on Thursday after the attacks on two oil tankers near Iran and the Strait of Hormuz. It was the second time in a month tankers have been attacked in the world's most important zone for oil supplies as tensions increase between the US and Iran. Washington blamed Iran for Thursday's attacks, prompting a denial and criticism from Tehran. Tensions between Iran and the US have risen since US President Donald Trump pulled out of a deal last year between Iran and global powers that aimed to curb Tehran's nuclear ambitions in exchange for sanctions relief. Iran has repeatedly warned it would block the Strait of Hormuz if it cannot sell its oil because of US sanctions.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—20:00	ECB Draghi speaks		
USD—23:00	US TIC Long-term Purchases		-28.4b

**Tuesday:** AU Monetary Policy Meeting Minutes, AU HPI, German ZEW Economic Sentiment, Eurozone Final CPI, Eurozone ZEW Economic Sentiment, Canada Manufacturing Sales, US Building Permits and Housing Starts

**Wednesday:** Japan Trade Balance, Eurozone Current Account, UK CPI, PPI, HPI, RPI, Canada Inflation, FOMC Policy Decision + Press Conference

**Thursday:** NZ GDP QoQ, AU RBA Bulletin, Japan Monetary Policy Statement, BoJ Policy Decision + Press Conference, EU ECB Economic Bulletin, UK Retail Sales, UK BoE Policy Meeting + Statement, US Philly Manufacturing Inde

**Friday:** Services and Manufacturing PMI for Major countries, Canada Retail Sales, BoE Quarterly Bulletin, Canada Retail Sales, US Existing Home Sales, US Bank Stress Results

# MARKETS TODAY

CURRENCIES	LAST	1D	YTD
DXY	97.554	-0.02%	1.44%
EUR/\$	1.1208	0.00%	-2.26%
GBP/\$	1.2578	-0.09%	-1.38%
AUD /\$	0.6871	-0.01%	-2.53%
NZD/\$	0.6507	0.23%	-3.16%
\$/JPY	108.56	0.00%	1.04%
\$/CAD	1.3417	-0.02%	1.64%
\$/CHF	0.9991	-0.01%	-1.70%
\$/SEK	9.5014	-0.11%	-6.82%
\$/NOK	8.7260	-0.13%	-0.98%
\$/DKK	6.6623	0.00%	-2.27%
\$/TRY	5.8969	-0.03%	-10.30%
EUR/GBP	0.8911	-0.08%	0.88%
EUR/JPY	121.68	0.01%	3.41%
EUR/CHF	1.1198	-0.02%	0.51%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1337.54	-0.31%	4.29%
Silver Spot \$/Oz	14.84	-0.29%	-4.26%
Platinum Spot \$/Oz	801.90	-0.37%	0.79%
Palladium Spot \$/Oz	1464.08	-0.31%	16.03%
COPPER \$/lb	263.80	0.27%	-0.25%
WTI \$/bbl	52.29	-0.42%	15.15%
BRENT \$/bbl	61.90	-0.18%	15.06%

## EQUITIES & BONDS

**Asian shares wobbled near 1-week lows on Monday as investors turned cautious ahead of a closely-watched Fed meeting, while political tensions in the Middle East and Hong Kong kept risk appetite in check.** MSCI's broadest index of Asia-Pacific shares outside Japan was little changed by early afternoon, after opening slightly weaker. Japan's Nikkei average also closed flat. Asian markets got a quick boost after Hong Kong's Hang Seng Index jumped as much as 1.4%. At the weekend, the territory's leader Carrie Lam climbed down on a bill that would have allowed extradition to China. The Hang Seng fell for three sessions in a row through Friday, after the extradition bill triggered mass protests and some of the worst unrest seen in the territory since Britain handed it back to Chinese rule in 1997. Mainland Chinese shares traded within a tight range, with benchmark Shanghai Composite up 0.2% and the blue-chip CSI 300 rising 0.1%.

**US stocks ended lower on Friday as investors were cautious going into next week's Fed meeting, while a warning from Broadcom of a broad weakening in global demand weighed on chipmakers and added to US-China trade worries.** Shares of Broadcom Inc fell 5.6% after it cut its full-year revenue forecast by \$2bn, blaming the US-China trade conflict and export curbs on Huawei Technologies Co Ltd. Other chip companies, which both source product and sell heavily in China, dropped sharply. The Philadelphia Semiconductor index tumbled 2.6%. Investors are bracing for next week's Fed meeting in light of recent market expectations that the US central bank could cut interest rates as



# MARKETS TODAY

## EQUITIES & BONDS

much as three times this year. Some strategists say stocks are primed for a selloff should the Fed fail to take an even more dovish tilt. The S&P 500 index has so far gained 4.9% in June and registered a second straight week of gains on Friday, largely on the rate cut hopes. The ongoing trade battle between the US and China also gives investors reason to play it safe ahead of the weekend. The Group of 20 summit at the end of the month may yield progress on a deal. All three major indexes posted gains for the week: the Dow rose 0.4%, the S&P 500 gained 0.5% and the Nasdaq added 0.7%. During the session, shares of Apple Inc slipped 0.7%, with Broadcom a major supplier to the iPhone maker. Adding to global demand worries, Chinese data pointed to the worst slowdown in industrial growth in 17 years. China's industrial output growth in May slowed below expectations and showed signs of weakening demand. In a bright spot, data showed US retail sales increased in May and sales for the prior month were revised higher, suggesting a pick-up in consumer spending that could ease fears the economy was slowing down sharply in Q2. Online pet products retailer Chewy Inc ended up 59% in its market debut, joining a host of high-profile names, such as Lyft Inc and Uber Technologies Inc, that listed on US stock exchanges this year.

**Gulf stock markets extended losses on Sunday reflecting a cautious mood among investors following last week's oil tanker attacks.** The attacks on the tankers in the Gulf of Oman on Thursday raised fears of a military confrontation in a vital shipping route for global oil supply and heightened tensions between Iran and the US, which have been in a standoff over Iran's nuclear programme. The Saudi index had dropped 1.6% on Thursday and fell a further 0.6% on Sunday after slight gains in early trade. Most Saudi banks were down, despite Sunday's announcement by Saudi British Bank that its merger with Alawwal Bank was completed. The two banks have combined to create the country's third largest lender, becoming a single listed company after regulatory approvals. SABB's shares shed 0.1%.

## COMPANY NEWS HEADLINES

- Goldman Sachs Group Inc is combining its private-investing arms, with the resulting new division to have about \$140 billion in assets, the Wall Street Journal reported on Sunday, citing people familiar with the matter.
- Alphabet Inc's Google has appointed Stanley Chen as its managing director of Greater China sales and operations, the company said in a statement on Monday.
- Airbus will launch a long-range version of its A321neo passenger jet at Paris Airshow and will announce close to 200 orders over the week, sources familiar with the matter said.
- Lufthansa cut its 2019 earnings forecast, citing falling prices in Europe, particularly in its home markets of Germany and Austria.
- Target Corp on Sunday said it was unable to process select card payments at some stores for nearly 90 minutes due to a vendor-related issue – the second consecutive outage faced by the retailer in a week.
- Japan Display Inc on Monday said it has received notice from TPK Holding Co Ltd that the Taiwanese flat screen maker has decided against investing in the Apple Inc supplier.



# MARKETS TODAY

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DOW JONES	26089.61	-0.07%	11.84%
S&P 500	2886.98	-0.16%	15.16%
NASDAQ	7796.66	-0.52%	17.50%
S&P/TSX	16301.91	0.39%	13.82%
EUROPE	LAST	1D	YTD
STXE 600	378.81	-0.40%	12.19%
FTSE 100	7345.78	-0.31%	9.18%
CAC 40	5367.62	-0.15%	13.46%
DAX	12096.40	-0.60%	14.56%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6530.91	-0.35%	15.67%
NIKKEI 225	21124.00	0.03%	5.54%
TOPIX	1539.74	-0.45%	3.06%
CSI 300 (China)	3654.83	0.00%	21.40%
MENA	LAST	1D	YTD
Saudi Arabia	8886.84	-0.61%	13.54%
Abu Dhabi	4955.26	-0.17%	0.82%
Dubai	2614.03	-0.72%	3.33%
Qatar	10479.63	-0.34%	1.75%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0959	0.0155	-0.5883
Germany	-0.2560	-0.0010	-0.4980
U.K.	0.8430	-0.0040	-0.4340
Australia	1.3880	0.0180	-0.9300

## TOP SELECTED NEWS

### UBS loses China bond deal after economist's pig comment

(Bloomberg) One of China's biggest state-owned infrastructure companies excluded UBS Group AG from a bond deal after the bank's global chief economist sparked a furor with his use of the phrase "Chinese pig." China Railway Construction Corp. decided against hiring UBS as a joint global coordinator on a dollar-bond sale, a CRCC spokesman said. The decision was prompted by last week's pig remark, people familiar with the matter said earlier. UBS declined to comment. CRCC is the first known corporate issuer to distance itself from UBS over a drama that has captured the attention of financial professionals around the world and threatened to complicate the Swiss firm's push into Asia's largest economy. While lost fees from the deal will have a negligible impact on the bank's bottom line, the signaling effect from a major state-owned company is potentially more concerning for UBS as it tries to prevent the uproar from damaging its investment-banking and wealth-management businesses.

### Goldman Sachs combining its private-investing units - WSJ

(Reuters) Wall Street bank Goldman Sachs is combining its private-investing arms, with the resulting new division to have about \$140 billion in assets, the Wall Street Journal reported on Sunday, citing sources. The bank is looking to



# MARKETS TODAY

## TOP SELECTED NEWS

combine four different units that invest in private companies, real estate and other hard-to-access deals, according to the report. Goldman Sachs did not respond to a Reuters request for comment on Sunday.

### **Goldman skeptical of 'insurance' US rate cuts from Fed**

(Reuters) Goldman Sachs economists said on Sunday they are skeptical of "insurance" US interest rate decreases from the Fed to forestall possible slowing in US economic growth due to global trade tensions. A surprise escalation in trade tensions between Washington and Beijing since May, together with stubbornly low inflation, have spurred bets among traders the US central bank may lower key lending rates by 0.75 percentage points by year-end. "However, we think the hurdle for such cuts is likely to be higher than widely believed," Goldman economists wrote in a research note published on Sunday. A number of primary dealers, or the 24 top Wall Street firms that do business directly with the Fed, anticipate the Fed would lower key borrowing costs beginning this summer.

### **US chipmakers quietly lobby to ease Huawei ban: sources**

(Reuters) - Huawei's American chip suppliers, including Qualcomm and Intel, are quietly pressing the US government to ease its ban on sales to the Chinese tech giant, even as Huawei itself avoids typical government lobbying, people familiar with the situation said. Executives from top US chipmakers Intel and Xilinx Inc attended a meeting in late May with the Commerce Department to discuss a response to Huawei's placement on the black list, one person said. The ban bars US suppliers from selling to Huawei, the world's largest telecommunications equipment company, without special approval, because of what the government said were national security issues. Qualcomm has also pressed the Commerce Department over the issue, four people said. Chip makers argue that Huawei units selling products such as smartphones and computer servers use commonly available parts and are unlikely to present the same security concerns as the Chinese technology firm's 5G networking gear, according to three people.

### **Alibaba proposes one-to-eight stock split ahead of up to \$20bn HK listing**

(Reuters) China's Alibaba Group Holding has proposed a one-to-eight stock split ahead of a listing in Hong Kong later this year that is expected to raise up to \$20bn. The split, to be presented to shareholders for a vote at an annual general meeting in Hong Kong on July 15, will increase flexibility in the firm's capital raising activities, including the issuance of new shares, the e-commerce giant said. The firm's board recommends shareholders to vote in favor of the proposal, it added in its statement dated Friday but published on the company's website on Monday.

### **Boeing says will take time to win back confidence**

(Reuters) The head of Boeing said on Sunday the U.S. planemaker had made a mistake in implementing a faulty cockpit warning system on the 737 MAX and predicted it would take time to rebuild the confidence of customers in the wake of two fatal crashes. Chairman and Chief Executive Dennis Muilenburg said Boeing failed to communicate "crisply" with regulators and customers, but defended the broad engineering and design approach to nose-down control software at the center of probes into the accidents that led to the plane's worldwide grounding. Muilenburg acknowledged the company made a mistake in failing to disclose a defective cockpit warning light on its 737 MAX to regulators and customers, and said that failure has been part of reviews by global regulators.

### **Nvidia to work with Arm chips, deepening push into supercomputers**

(Reuters) Nvidia Corp on Monday said it will make its chips work with processors from Arm Holdings Inc to build supercomputers, deepening Nvidia's push into systems that are used for modeling both climate change predictions and nuclear weapons. Nvidia was long known as a supplier of graphics chips for personal computers to make video games look more realistic, but researchers now also use its chips inside data centers to speed up artificial intelligence computing work such as training computers to recognize images. To do so, Nvidia's so-called accelerator chips work alongside central processors from companies such as Intel Corp and International Business Machines Corp.



# MARKETS TODAY

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