

# MARKETS TODAY

Wednesday, June 19, 2019

## MARKETS IN BRIEF

- Global markets rallied after the U.S. and China said their presidents will meet in Japan next week to relaunch trade talks following a month-long stalemate.
- Asian stocks hit 5-week highs while U.S. stocks surged with the S&P 500 approaching a record high. Chinese yuan advanced to its strongest level in 3 weeks on the news.
- Earlier in the day, stocks got a boost from unexpected dovish comments by ECB's President Draghi. European bond yields slumped to very low levels. German 10-year bund yield hit -0.31%, an all-time low. French, Swedish, and Austrian 10-year government yields touched 0% for the first time. U.S. 10-year Treasury yield hit 2.01%, its lowest since September 2017. Euro steadied after being pressured by Draghi's comments.
- U.S. dollar held near 2-week high before the highly awaited Fed decision at 21:00 LT, followed by a press conference at 21:30 LT. Will the central bank signal a rate cut sooner than expected?
- British pound traders will be watching inflation data at 11:30 LT.
- Turkish lira came under renewed pressure after Bloomberg news reported that the U.S. is weighing sanctions packages.
- Oil prices extended gains as trade hopes resurfaced. Oil prices was already gaining support from geo-political tensions.

### Draghi: more stimulus ... Trump: not fair

Mario Draghi said prolonged economic uncertainty means risks to the euro-zone economy have solidified, which is why the ECB is almost ready to add stimulus. Elaborating on earlier comments that policy makers would act "in the absence of improvement" in the economic outlook, the ECB president stressed that the language is a deliberate change from less than two weeks ago. Then, the Governing Council said it would respond "in case of adverse contingencies." "This is because of this lingering uncertainty that is by itself a materialization of risk,". That prompted a tweet from U.S. Trump who said such suggestions of stimulus make it "unfairly easier" for European companies to compete with the U.S.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1195	0.01%
GBP/\$	1.2550	-0.06%
AUD /\$	0.6876	-0.01%
\$/JPY	108.26	0.18%
\$/CAD	1.3376	0.01%
Gold \$	1345.67	-0.07%
WTI \$	54.10	0.37%
BRENT \$	62.32	0.29%
AMERICA		
DOW JONES	26465.54	1.35%
S&P 500	2917.75	0.97%
NASDAQ	7953.88	1.39%
EUROPE		
STXE 600	384.78	1.67%
CAC 40	5509.73	2.20%
DAX	12331.75	2.03%
ASIA PACIFIC		
S&P/ASX 200	6648.10	1.19%
NIKKEI 225	21333.87	1.72%
CSI 300 (China)	3718.15	1.38%
MENA		
Saudi Arabia	9000.43	0.28%
Dubai	2630.05	0.05%
Qatar	10420.14	0.29%
BONDS		
U.S. 10-year	2.0595	0.0000
German Bund 10-yr	-0.3140	0.0060
AU 10-year	1.3390	-0.0300

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## Johnson extending his lead

Boris Johnson extended his lead over his rivals in the race to become Britain's next prime minister, and looked poised to pick up more votes as the hardest Brexiteer in the contest was eliminated. The next two days will see Conservative members of Parliament narrow the field of possible successors to Theresa May down to two candidates, who will then be voted on by party members. The winner will attempt to break the political deadlock that has gripped Britain for much of the three years since it voted to leave the EU.

## Will the Fed give in for Trump?

Facing pressure from Wall Street and Trump, Fed Chairman Jerome Powell and his colleagues may be running out of patience. The FOMC is likely to hold interest rates steady today while opening the door to a cut -- by dropping its commitment to being "patient" in its policy statement. The decision will be announced at 21:00 LT and Powell will hold a press conference 30 minutes later. According to Bloomberg sources, Trump asked White House lawyers earlier this year to explore his options for removing Powell as Fed, in what would be an unprecedented move.

## "Libra" ... The new era

Payment giants Visa, Mastercard and PayPal are set to work with Facebook on the venture forming a new digital currency. The currency, called Libra, will launch as soon as next year. It's what's known as a stable coin, one that can avoid massive fluctuations in value so it can be used for everyday transactions. Industry experts and insiders say the payments companies want a seat at the table to help shape the new currency. The project is the culmination of a year-long effort as Facebook seeks to spur growth on its various platforms that already count more than 2bn users.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	5.89	-
SOLIDERE—B	5.71	-2.06%
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 two-week high on Wednesday ahead of the Fed's closely-watched policy decision later in the day, supported by a surprisingly dovish ECB and bearish Eurozone economic data.** The dollar index versus a basket of six major currencies was steady at 97.620 after climbing to 97.766 on Tuesday, its highest level since June 3. The focus was on whether the greenback can retain its strength after the Fed's two-day policy meeting ends later on Wednesday. The Fed is widely expected to stand pat on monetary policy this time but open the door for an interest rate cut at the next meeting in July. The prospect of the US central bank lowering rates has also driven benchmark Treasury yields to near two-year lows while boosting equity prices. Traders are also focused on whether signs that the US and China are preparing for trade talks at a Group of 20 leaders summit later this month will improve sentiment for risk assets and commodity currencies. US President Donald Trump said on Tuesday he will have an extended meeting with Chinese President Xi Jinping at the G20. The world's two largest economies are in the middle of a costly trade dispute that has pressured financial markets and damaged the world economy. Signs of a thaw between the two

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## FX & COMMODITIES

countries would encourage so-called "risk off" trades, which tend to cause the yen to fall and the Australian dollar to rise. The dollar was little lower at 108.26 yen after losing modest ground overnight as traders kept their powder dry before the outcome of the Fed's policy meeting.

**The euro dropped along with a decline in German government bond yields, which hit a new record low on Tuesday, after ECB chief Mario Draghi said the bank will need to ease policy again if inflation doesn't head back to its target.** The euro traded at \$1.1195, languishing near session lows after shedding 0.2% yesterday, when it brushed a 15-day trough of \$1.1181. A closely watched survey by the ZEW Institute showing that the mood among German investors had deteriorated sharply in June also weighed on the euro.

**The Australian dollar was flat at \$0.6876 after mounting a rebound the previous day. Australia exports a lot of commodities to China, so it would benefit greatly from progress toward ending the trade war.** However, it may prove difficult to turn bullish on the Aussie dollar over the long term because of growing expectations that the Reserve Bank of Australia may have to cut rates again.

The yuan advanced to its strongest level in over three weeks on the trade news before paring its gains on doubts the Trump-Xi talks would produce a durable trade deal.

**The Turkish lira weakened some 1% on Wednesday after Bloomberg News reported that the US is weighing three sanctions packages to punish Turkey over its purchases of the Russian S-400 defence system.** The lira stood at 5.8650 against the dollar, weakening from Tuesday's close of 5.8265. Earlier, it weakened as far as 5.9250.

**Oil prices extended gains on Wednesday after rising in the previous session on rekindled hopes for a US-China trade deal and on the potential for conflict between the US and Iran in the Middle East after tanker attacks there last week.** Brent crude futures were up 0.29% at \$62.32 a barrel. They rose 2% on Tuesday. US West Texas Intermediate crude gained 0.37% to \$54.10 a barrel. The US benchmark surged 3.8% in the last session. Both oil benchmarks gave up earlier gains in the Asian session after data showed that Japan's exports fell for a sixth straight month in May as China-bound shipments weakened, underlining the impact of the trade war. Tensions in the Middle East after last week's tanker attacks remain high, with Trump saying he was prepared to take military action to stop Iran having a nuclear bomb but leaving open whether he would sanction the use of force to protect Gulf oil supplies.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
GBP—11:30	UK CPI MoM	0.10%	0.40%
GBP—11:30	UK Trimmed CPI MoM	2.00%	2.00%
CHF—16:00	SNB Quarterly Bulletin		
EUR—17:00	ECB Draghi speaks		
OIL—17:30	EIA Weekly Report		
USD—21:00	US Fed Policy Decision	2.50%	2.50%
USD—21:30	US Fed Chair Powell speaks		

**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 Index

**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

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CURRENCIES	LAST	1D	YTD
DXY	97.620	-0.02%	1.50%
EUR/\$	1.1195	0.01%	-2.37%
GBP/\$	1.2550	-0.06%	-1.60%
AUD /\$	0.6876	-0.01%	-2.45%
NZD/\$	0.6529	-0.02%	-2.83%
\$/JPY	108.26	0.18%	1.32%
\$/CAD	1.3376	0.01%	1.95%
\$/CHF	0.9992	0.13%	-1.71%
\$/SEK	9.5419	-0.07%	-7.22%
\$/NOK	8.7427	0.03%	-1.16%
\$/DKK	6.6704	0.01%	-2.38%
\$/TRY	5.8650	-0.63%	-9.81%
EUR/GBP	0.8920	-0.07%	0.78%
EUR/JPY	121.19	0.17%	3.83%
EUR/CHF	1.1186	0.10%	0.62%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1345.67	-0.07%	4.93%
Silver Spot \$/Oz	14.98	-0.19%	-3.31%
Platinum Spot \$/Oz	803.71	-0.05%	1.01%
Palladium Spot \$/Oz	1488.03	0.41%	17.93%
COPPER \$/lb	269.85	-0.15%	2.04%
WTI \$/bbl	54.10	0.37%	19.14%
BRENT \$/bbl	62.32	0.29%	15.84%

## EQUITIES & BONDS

**Government debt markets surged worldwide on Tuesday on the growing prospect of central-bank stimulus amid concern about dimming global growth.** The move lost some steam on signs of apparent thawing in US-China tensions. Benchmark 10-year Treasury yields slid as much as 8 bps to 2.01%, the lowest level since 2017, as comments from ECB President Mario Draghi dragged down rates across Europe. French, Swedish, German and Austrian 10-year yields fell to unprecedented lows. The move in Treasuries was briefly reversed, in part, following news that the US and Chinese presidents will meet at the upcoming Group-of-20 summit in Japan, assuaging some market concerns about the fractious relationship between the world's two largest economies. Japanese government bond yields skidded to the lowest in nearly three years. The 10-year JGB yield was at minus 0.155%, its lowest level since August 2016.

**Asian shares hit 5-week highs on Wednesday as investors wagered the Fed would follow the lead of the ECB and open the door to future rate cuts at its policy meeting later in the day.** Adding to the cheer was news Trump would meet with Chinese President Xi Jin ping at the G20 summit later this month, even though most analysts doubt there would be a decisive breakthrough to end their countries' damaging trade dispute. MSCI's broadest index of Asia-Pacific shares outside Japan climbed 1.8% in its biggest daily rally since January. Shanghai blue chips rose 1.9% to a 6-week peak. Japan's Nikkei gained 1.72%, while Australia added 1.1% to its highest in 11 years. E-Mini futures for the S&P 500 were a fraction firmer, as were those for the EUROSTOXX 50.

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## EQUITIES & BONDS

**US stocks surged on Tuesday and the S&P 500 approached a record high after Washington rekindled trade talks with Beijing, boosting sentiment along with growing investor confidence that the Fed will cut interest rates this year.** Global stock markets have rallied and retreated repeatedly in recent months in reaction to comments from Trump about progress - or lack of progress - in negotiating an end to the trade conflict. Trump's statement on Tuesday pushed trade-sensitive industrials up 1.9% and technology stocks gained 1.7%. Together, they were the biggest boost to the benchmark index. Chip companies, which have a sizable revenue exposure to China, led the rally in tech stocks, with the Philadelphia Semiconductor index surging 4.3%. The US-China trade war and its impact on economic growth have investors increasingly expecting the Fed will cut rates to preserve the US economic expansion, which would be the longest on record this summer. The Fed is widely expected to leave interest rates unchanged at its two-day policy meeting that ends Wednesday, while laying the foundation for a cut later this year. The S&P 500 has gained 6% so far this month, and is only about 1% from the all-time high hit in early May. Comments by ECB Draghi indicating the possibility of fresh rate cuts or asset purchases also lifted sentiment. Apple, Amazon.com and Microsoft rose between 0.8% and 2.4%, with the tech triumvirate contributing more than any other stocks to increases in the S&P 500 and Nasdaq. Boeing Co jumped 5.4%, buoying the Dow, after the plane-maker received an order for its 737 MAX jets valued at more than \$24bn at list prices; the 737 MAX has been grounded since March after two deadly crashes. The utilities, real estate and consumer staples sectors, all of which are viewed as defensive, were the only decliners.

**Major stock markets in the Gulf rose on Tuesday, led by financials including Emirates NBD in Dubai.** Markets have steadied after falling late last week following attacks on tankers in the Gulf of Oman on Thursday. The attacks 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.

## COMPANY NEWS HEADLINES

- Dish Network is in talks to pay at least \$6bn for assets that T-Mobile US and Sprint are unloading to win regulatory approval for their merger (Bloomberg sources).
- Adobe Inc beat analysts' estimates for quarterly profit and revenue on Tuesday, driven by growth in its digital media business that houses its flagship product Creative Cloud, sending its shares up 4.6% after market.
- Alphabet Inc's Google announced on Tuesday it would set aside \$750 million in land and \$250 million in financing to spur developers in the San Francisco Bay Area to build at least 20,000 homes and rehabilitate other housing over the next decade.
- South Korea's biggest carrier Korean Air Lines said on Wednesday it has signed a memorandum of understanding to buy 30 Boeing planes for \$9.67bn.
- PG&E Corp will pay \$1bn as part of its bankruptcy reorganization to more than a dozen local governments in California struck by wildfires in recent years, the company and lawyers for the governments said on Tuesday.
- Germany's government will buy three new Bombardier jets this year, RND newspapers reported on Tuesday, adding that the deal would have a volume of 240mn euros (\$268.51mn).
- U.S. cable provider Comcast Corp on Tuesday launched a program to further develop an advertising strategy that better targets audiences, as the TV industry looks to lure more advertisers away from digital players like Facebook and Alphabet's Google.
- US energy firm Anadarko Petroleum Corp on Tuesday gave the go-ahead for the construction of a \$20bn gas liquefaction and export terminal in Mozambique, the largest single LNG project approved in Africa.

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AMERICA	LAST	1D	YTD
DOW JONES	26465.54	1.35%	13.45%
S&P 500	2917.75	0.97%	16.39%
NASDAQ	7953.88	1.39%	19.87%
S&P/TSX	16503.35	0.92%	15.22%
EUROPE	LAST	1D	YTD
STXE 600	384.78	1.67%	13.96%
FTSE 100	7443.04	1.17%	10.63%
CAC 40	5509.73	2.20%	16.47%
DAX	12331.75	2.03%	16.79%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6648.10	1.19%	17.74%
NIKKEI 225	21333.87	1.72%	6.59%
TOPIX	1555.27	1.74%	4.09%
CSI 300 (China)	3718.15	1.38%	23.50%
MENA	LAST	1D	YTD
Saudi Arabia	9000.43	0.28%	15.00%
Abu Dhabi	4917.87	0.11%	0.06%
Dubai	2630.05	0.05%	3.96%
Qatar	10420.14	0.29%	1.18%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0595	0.0000	-0.6247
Germany	-0.3140	0.0060	-0.5560
U.K.	0.8070	-0.0430	-0.4700
Australia	1.3390	-0.0300	-0.9790

## TOP SELECTED NEWS

### ECB rate cut is weapon of choice as Draghi threatens action

(Bloomberg) ECB policy makers anticipate using an interest-rate cut as their first stimulus move if they need to act again to boost inflation, according to three euro-zone central bank officials. Lowering borrowing costs further below zero would be the most likely initial step rather than resuming asset purchases, said the officials, whose alarm at the descent of market inflation expectations to a record low is nudging them all toward favoring action. They didn't want to be identified, citing the confidentiality of such discussions. An ECB spokesman declined to comment. ECB President Draghi appeared to set a low bar for action on Tuesday when he said additional stimulus will be needed "in the absence of any improvement" to the outlook for growth and inflation. He specifically cited rate reductions as an option, sending the euro lower and prompting money markets to price in a 10 basis-point cut by December.

### Trump weighs new sanctions on Turkey over buying Russia's S-400

(Bloomberg) The Trump administration is weighing three sanctions packages to punish Turkey over its purchases of the Russian S-400 missile-defense system, according to people familiar with the matter. The most severe package under discussion between officials at the National Security Council and the State and Treasury departments would all but



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## TOP SELECTED NEWS

cripple the already troubled Turkish economy, according to three people familiar with the matter, who asked not to be identified discussing internal deliberations. Any of the options would come on top of the months-old US pledge to cut off sales of the F-35 jet to Turkey if President Recep Tayyip Erdogan keeps his vow to buy the Russian system.

### **Deutsche Bank weighs senior shakeup as CEO purges top ranks**

(Bloomberg) Deutsche Bank AG Chief Executive Officer Christian Sewing is planning sweeping changes to his top management, considering replacing finance chief James von Moltke and investment banking head Garth Ritchie, as he purges executives who rose under his predecessor. The bank is expected to decide on the future of several management members within weeks, according to people familiar with the matter. Sewing may take over control of the investment bank from Ritchie on an interim basis while the bank searches for a permanent successor, one person said. Karin Dohm, head of regulatory affairs, is the frontrunner to replace compliance chief Sylvie Matherat, they said, asking not to be named disclosing internal deliberations.

### **Facebook's cryptocurrency ambitions face privacy concerns, political backlash**

(Reuters) Facebook announced ambitious plans to launch a new global cryptocurrency called Libra, part of an effort to expand into digital payments that immediately raised privacy concerns. The company has linked with 28 partners including Mastercard, PayPal and Uber to form Libra Association, a Geneva-based entity governing the new digital coin, according to marketing materials and interviews with executives. No banks are yet part of the group. To facilitate transactions, Facebook also created Calibra, a subsidiary that will offer digital wallets to save, send and spend Libras. Calibra will be connected to Facebook messaging platforms Messenger and WhatsApp. The whole system is scheduled to launch in the first half of 2020. Representative Maxine Waters, chairwoman of the US House Financial Services Committee, called for Facebook executives to testify before Congress and asked the company to halt development of Libra until lawmakers and regulators have reviewed the project.

### **Boeing's embattled Max gets key win in first post-grounding deal**

(Bloomberg) Boeing Co. won a huge endorsement for its troubled 737 Max aircraft, as the parent company of British Airways promised to build its future short-haul fleet around the model with a plan to buy 200 jets. In a commitment valued at \$24bn, IAG SA signed a letter of intent to take the single-aisle planes between 2023 and 2027, Boeing said in a statement Tuesday. It was the first deal for the 737 Max since a March grounding that followed two deadly crashes of the aircraft, the best seller in Boeing's history. The pact ends months of unrelentingly bad news for Boeing's flagship aircraft, which the company is struggling to return to the skies as a grounding enters its fourth month. IAG's willingness to bet on the model provided a special boost since Chief Executive Officer Willie Walsh is a former 737 pilot who has flown a Max simulator equipped with an update to a software system implicated in both crashes.

### **Airbus seeks new partners to expand in US space market**

(Reuters) Airbus' defense division is looking for new partners to expand its presence in the growing US space market, and could potentially build components for a lunar program there, Airbus Defense and Space CEO Dirk Hoke told Reuters. Airbus is ramping up production of more than 640 refrigerator-sized satellites for start-up telecoms services provider OneWeb at a facility in Florida, that Hoke said would already give it some leverage in the US market. The company could also produce components in the United States for its European Support Module, a critical part of NASA's Orion spacecraft, if that is modified as a module to access the moon, Hoke told Reuters at the Paris Airshow.

### **EU-Swiss stock exchange sanctions loom as talks stall**

(Reuters) Swiss exchanges risk losing direct access to European Union investors from July 1 in a potential blow to Switzerland's financial industry after the bloc said on Tuesday there had been no progress in talks with Bern over a new partnership treaty. The Swiss government said it will retaliate with measures to defend Swiss stock exchanges if the EU blocks their access to its investors, saying talks on a partnership treaty should not be linked to the so-called equivalence regime.

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