

# MARKETS TODAY

Thursday, June 20, 2019

## MARKETS IN BRIEF

- The U.S. Fed gave in and signaled a sooner-than-expected rate cut. The dovish tone sent global stocks higher and government yields lower. U.S. 10-year Treasury yield dropped below 2% level hitting 1.9719%, its lowest since November 9, 2016 (more than 2 1/2-year low). U.S. dollar dropped against its major peers.
- In Asia, stocks surged in China, saw modest gains in Tokyo and Hong Kong, and were little changed in South Korea. U.S. futures also rose. Yesterday, the S&P 500 Index edged higher closer to record levels.
- Japanese yen maintained gains after the BoJ kept monetary policy unchanged. USD/JPY hit 107.47 yen, lowest since Jan 3.
- Spot Gold prices surged hitting \$1394 per ounces, its highest since September 2013 (5 1/2-year high).
- British pound traded higher before Bank of England's policy decision at 14:00 LT, along with MPC meeting minutes. Carney will speak at 23:00 LT.
- NZ dollar rose after data showed that the economy expanded in the first quarter.
- Oil prices jumped on signs of improving demand in the U.S., and as OPEC and other producers finally agreed to meet on July 1 for to discuss output cuts.

## Fed not patient anymore

The US Fed signaled it was ready to lower interest rates for the first time since 2008, citing "uncertainties" that have increased the case for a cut as officials seek to prolong the near-record U.S. economic expansion. While Chair Jerome Powell and fellow central bankers left their key rate in a range of 2.25% to 2.5% on Wednesday, they dropped a reference in their statement to being "patient" on borrowing costs and forecast a larger miss of their 2% inflation target this year. Powell noted that apparent progress on trade talks had "turned to greater uncertainty" and many Fed officials "now see that the case for somewhat more accommodative policy has strengthened." The shift followed attacks on the Fed by Trump for not doing more to bolster the economy.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1275	0.44%
GBP/\$	1.2695	0.44%
AUD /\$	0.6903	0.32%
\$/JPY	107.65	0.42%
\$/CAD	1.3226	0.41%
Gold \$	1380.94	1.51%
WTI \$	55.49	3.22%
BRENT \$	63.65	2.96%
AMERICA		
DOW JONES	26504.00	0.15%
S&P 500	2926.46	0.30%
NASDAQ	7987.32	0.42%
EUROPE		
STXE 600	384.77	0.00%
CAC 40	5518.45	0.16%
DAX	12308.53	-0.19%
ASIA PACIFIC		
S&P/ASX 200	6687.40	0.59%
NIKKEI 225	21462.86	0.60%
CSI 300 (China)	3818.69	2.77%
MENA		
Saudi Arabia	8936.26	-0.71%
Dubai	2639.48	0.41%
Qatar	10507.40	0.84%
BONDS		
U.S. 10-year	1.9872	-0.0361
German Bund 10-yr	-0.3130	-0.0250
AU 10-year	1.2940	-0.0460

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## Last two candidates to be voted for today

UK Conservative members of Parliament will choose the final shortlist of two candidates to succeed Theresa May as prime minister Thursday, a day after the favorite, Boris Johnson, stretched his lead to 89 votes. International Development Sec. Rory Stewart was knocked out in the third ballot Wednesday. With Johnson's place in the final pair looking assured, Foreign Sec. Jeremy Hunt, Environment Sec. Michael Gove and Home Sec. Sajid Javid are battling to join him on the ballot paper that's put to 160k grassroots Tory Party members. Johnson won 143 votes out of 313.

## Bank of Japan keeping policy on hold

The BoJ kept monetary policy steady on Thursday, preferring to save its dwindling ammunition as a darkening global growth outlook prompts other major central banks to drop hints of additional stimulus. But the BoJ stressed anew that global risks were increasing as trade tensions and uncertainty over US economic policies jolt financial markets, signaling that it, too, is leaning more toward ramping up monetary support. As widely expected, the BOJ maintained its short-term rate target at -0.1% and a pledge to guide 10-year gov't bond yields around zero%.

## Bank of England to decide today

The BoE must decide whether to temper warnings of future interest-rate hikes as investors and other major central banks prepare for more policy easing. While the Monetary Policy Committee is expected to keep the key rate unchanged on Thursday, there could be some votes for an immediate increase. Officials, led by Gov. Mark Carney, may choose to repeat their mantra that a few rate rises are needed to control inflation, putting them at odds with investors who are pricing a greater chance of cuts in coming years.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	5.54	-5.94%
SOLIDERE—B	5.58	-2.28%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.00	-
BLOM BANK	8.00	-
BYBLOS BANK	1.22	0.83%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

## FX & COMMODITIES

The US dollar fell on Thursday, skidding to a 6-month low versus the yen, after the US Fed signalled it was ready to lower interest rates to combat growing domestic and global risks. The Fed left interest rates unchanged on Wednesday as widely expected but said the case for lower rates was building, suggesting it could ease monetary policy as early as next month as it took stock of rising trade tensions and growing concerns about weak inflation. The dollar fell to 107.54 yen, the lowest since January, and then pared some of its loses to trade at 107.65 yen, down 0.42% on the day. The greenback came under additional pressure after benchmark 10-year Treasury yields fell to the lowest in more than two years. The dollar also took a knock after Bloomberg reported that Trump believes he has the authority to replace Fed Chair Jerome Powell and demote him to be a board governor. The dollar index against a basket of six major currencies fell 0.30% to 96.826 The yen held onto its gains versus the dollar after the Bank of Japan kept its ultra-loose monetary policy unchanged.

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## FX & COMMODITIES

**The British pound held on to gains against the dollar ahead of a Bank of England meeting where policymakers are expected to hint at more interest rate hikes.** However, the BOE could be an outlier as other central banks turn dovish and enter a rate cutting cycle, which increases the chance of further declines in bond yields on a global scale. The pound also rose 0.44% to \$1.2698. Sterling was buoyant ahead of the BOE's policy meeting, where the central bank may strike a relatively more confident tone than its peers. In contrast with the general caution displayed by other major global central banks, the BoE is expected to repeat its intention of raising borrowing costs - Brexit permitting.

The euro extended its gains, rising 0.44% to \$1.1275. The common currency has managed to bounce off a 2-week low of \$1.1181 set earlier after ECB President Draghi's dovish comments sent German bund yields to record lows.

**The New Zealand dollar jumped by more than 0.60% to \$0.6577 after data showed the New Zealand economy expanded at a steady pace in Q1,** supporting the case for the central bank to keep interest rates unchanged at a meeting next week.

China's yuan rallied to its strongest level in five weeks amid broad dollar weakness and signs that China and the US are returning to the negotiating table in their trade dispute.

**Gold prices spiked after a dovish US Fed opened the door to further rate cuts.** Spot gold prices surged to their highest level since March 2014, Reuters reported. As of 12:42 am ET Thursday, it was 1.33% higher at around \$1,378.01 per ounce. As the yields on the shorter-duration notes go down, gold becomes more attractive as an investment option due to its relatively higher yield.

**Oil prices rose nearly 3% on Thursday on signs of improving demand in the US, the world's biggest crude consumer, and as OPEC and other producers finally agreed to a date for a meeting to discuss output cuts.** Brent crude futures rose 2.96%, to \$63.65 a barrel. They dropped 0.5% on Wednesday. US WTI crude futures were up 3.22%, at \$55.49 a barrel. WTI fell 0.26% in the previous session. After swelling to near 2-year highs, US crude stocks fell by 3.1mn barrels last week, compared with analyst expectations for a draw of 1.1mn barrels, the Energy Information Administration (EIA) said. Refined products also posted surprise drawdowns due to a rise as gasoline demand ticked higher on a weekly basis and surged 6.5% from a year ago. Members of the OPEC agreed to meet on July 1, followed by a meeting with non-OPEC allies on July 2, after weeks of wrangling over dates. OPEC and its allies will discuss whether to extend a deal on cutting 1.2mn bpd of production that runs out this month.

## ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
GBP—11:30	UK Retail Sales MoM	-0.50%	0.00%
GBP—14:00	UK BoE Policy Decision	0.75%	0.75%
GBP—14:00	UK MPC Meeting Minutes	0-0-9	0-0-9
GBP—14:00	UK Asset Purchase	435b	435b
USD—15:30	US Philly Fed Manufacturing Index	10.6	16.6
GBP—23:00	BoE Gov. Carney speaks		

**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	96.826	-0.30%	0.68%
EUR/\$	1.1275	0.44%	-1.67%
GBP/\$	1.2695	0.44%	-0.46%
AUD /\$	0.6903	0.32%	-2.07%
NZD/\$	0.6577	0.60%	-2.11%
\$/JPY	107.65	0.42%	1.90%
\$/CAD	1.3226	0.41%	3.11%
\$/CHF	0.9895	0.48%	-0.75%
\$/SEK	9.4354	0.57%	-6.17%
\$/NOK	8.6345	0.82%	0.07%
\$/DKK	6.6221	0.44%	-1.67%
\$/TRY	5.7568	0.58%	-8.12%
EUR/GBP	0.8882	0.00%	1.21%
EUR/JPY	121.38	-0.02%	3.67%
EUR/CHF	1.1157	0.04%	0.89%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1380.94	1.51%	7.68%
Silver Spot \$/Oz	15.31	1.03%	-1.17%
Platinum Spot \$/Oz	814.98	0.34%	2.43%
Palladium Spot \$/Oz	1518.02	0.92%	20.31%
COPPER \$/lb	271.45	1.27%	2.65%
WTI \$/bbl	55.49	3.22%	22.20%
BRENT \$/bbl	63.65	2.96%	18.31%

## EQUITIES & BONDS

**Treasuries extended gains after the Fed struck a dovish tone in its latest policy statement. The 10-year Treasury yield dropped below 2% to its lowest since November 2016 and 2-year rates continued to fall.**

**Asian stock markets rallied on Thursday while the dollar dropped and global bond yields plunged.** MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.92%, led by gains in China, while Tokyo's Nikkei advanced 0.67%. European stock futures point to gains of up to 0.5% for markets there. The MSCI ACWI, which incorporates readings of 49 equity markets across the world, gained 0.33% on Thursday. It has recovered a large part of its 6.7% losses made after Trump threatened new tariffs on all of China's imports last month. Signs that China and the US are returning to the negotiating table after a 6-week hiatus also bolstered risk sentiment. The rally in stocks comes as a host of central banks in Asia and Europe are scheduled to hold policy meetings later in the day, with most expected to flag moves toward looser monetary settings. The Bank of Japan kept monetary policy steady on Thursday, preferring to save its dwindling ammunition, but speculation is rising it may further loosen its ultra-easy stance later this year.

**In the US, the S&P 500 approached a record high on Wednesday after the Fed signaled potential interest cuts later this year, reassuring investors worried that the US-China trade war could stall economic growth.** Saying it "will act as appropriate to sustain" economic expansion, the central bank signaled rate cuts of as much as half a %age point

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## EQUITIES & BONDS

over the remainder of 2019. In its statement following a two-day policy meeting, the Fed held rates steady, as expected, but dropped a previous promise to be "patient" in adjusting rates. That elevated the S&P 500 and Dow Jones Industrial average to less than 1% from their record high closes set in late April. Buoyed by growing confidence the Fed will cut rates, and by hopes of an end to the US-China trade war, US stocks have climbed in recent weeks. The S&P 500 has gained 6% in June. The financial sector fell 0.2%, with bank stocks dipping 0.2%. Lower interest rates tend to hurt banks' profits. Contributing more than any other stock to advances on the Nasdaq and S&P 500, Adobe Inc surged 5.2% after the Photoshop software provider beat analysts' estimates for quarterly profit and revenue. Facebook fell 0.5% as its ambitious plan to launch a digital currency faced a backlash from regulators and politicians in the US and abroad. The healthcare sector rose 1%, helped by gains in UnitedHealth Group Inc, Pfizer Inc and Allergan Plc. Allergan jumped 6.2% after the drug-maker said its constipation drug, jointly developed with Ironwood Pharmaceuticals Inc, improved symptoms in patients suffering from irritable bowel syndrome with constipation.

**In the MENA region, Abu Dhabi index outperformed Gulf markets on yesterday buoyed by financial stocks. The Saudi index snapped two days of gains pressured by banking shares.** Last week's attacks on tankers in the Gulf of Oman raised fears of confrontation in a vital route for global oil supply and heightened tensions between Iran and the US. Investor concerns have eased somewhat, after both Tehran and Riyadh said they did not want a war, but tensions in the region remain high. The Abu Dhabi index added 1.3%, as First Abu Dhabi Bank (FAB) and Emirates Telecommunications Group were up 1% and 1.1% respectively. On Wednesday, First Abu Dhabi Bank, the biggest lender in the UAE, said that it will close its sole branch in Qatar, citing Doha's regulatory actions against the bank. Earlier in June, Qatar placed further restrictions on FAB as it continues a probe into alleged currency manipulation begun after the UAE and other Arab states launched a boycott against Qatar in mid-2017.

## COMPANY NEWS HEADLINES

- Cutting its stake in alliance partner Nissan is not on Renault's agenda, the French carmaker's chief executive Thierry Bollere said on Wednesday after a global vehicle launch in New Delhi.
- Oracle Corp on Wednesday forecast current-quarter profit above estimates, as the business software maker benefited from demand for its on-premise IT, cloud services and license support businesses, sending its shares up as much as 7% in extended trading.
- Commodities trading firm Noble Group is set to take a small stake in ambitious Australian rare earths developer Arafura, raising its exposure to strategic minerals critical to high-tech industries and electric vehicles.
- NASA's flagship space launch system being built by Boeing is taking years longer than expected with cost overruns of nearly \$2bn, an audit found on Wednesday, raising questions about meeting a goal of returning humans to the moon by 2024.
- US live video streaming company YouNow on Wednesday filed with the Securities and Exchange Commission a public offering circular to distribute its own digital currency called Props.
- Papa John's International Inc said on Wednesday it would spend \$80mn to boost its brand image and support its franchisees in the US from Q3 of fiscal year 2019.

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AMERICA	LAST	1D	YTD
DOW JONES	26504.00	0.15%	13.62%
S&P 500	2926.46	0.30%	16.74%
NASDAQ	7987.32	0.42%	20.38%
S&P/TSX	16511.79	0.05%	15.28%
EUROPE	LAST	1D	YTD
STXE 600	384.77	0.00%	13.96%
FTSE 100	7403.54	-0.53%	10.04%
CAC 40	5518.45	0.16%	16.65%
DAX	12308.53	-0.19%	16.57%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6687.40	0.59%	18.44%
NIKKEI 225	21462.86	0.60%	7.24%
TOPIX	1559.90	0.30%	4.40%
CSI 300 (China)	3818.69	2.77%	26.84%
MENA	LAST	1D	YTD
Saudi Arabia	8936.26	-0.71%	14.18%
Abu Dhabi	4974.84	1.27%	1.22%
Dubai	2639.48	0.41%	4.34%
Qatar	10507.40	0.84%	2.02%
10-YEAR BONDS	LAST	1D	YTD
U.S.	1.9872	-0.0361	-0.6970
Germany	-0.3130	-0.0250	-0.5550
U.K.	0.8650	0.0580	-0.4120
Australia	1.2940	-0.0460	-1.0240

## TOP SELECTED NEWS

### Australia's central bank flags rate cut, market bets on July

(Reuters) Australia's top central banker on Thursday said a recent cut in interest rates would not be enough to revive economic growth, an unusually blunt declaration that led markets to narrow the odds on another easing as early as July. RBA Governor Philip Lowe said it was "unrealistic" to think that the single quarter-point cut in rates to 1.25% would work on its own and called for the government for more action on fiscal stimulus. "The most recent data – including the GDP and labor market data – do not suggest we are making any inroads into the economy's spare capacity," said Lowe in a marked shift from his normally optimistic tone. Annual growth in the economy slowed to a decade low of 1.8% in the March quarter while the jobless rate has ticked up to 5.2% from a low of 4.9% in February. Inflation and wages growth have also been more subdued than the bank previously expected. Lowe said Australia could, and should, push unemployment down to 4.5% and easing policy would help deliver that goal.

### France to focus on top EU post, easing Weidmann path to ECB

(Bloomberg) France plans to focus its political muscle on pushing through its preferred candidate to run the European Commission rather than the European Central Bank, figuring that's where the real power lies in the years



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## TOP SELECTED NEWS

ahead. Should the French be able to impose their will at the EU's executive branch and acquiesce on its central bank, that would almost certainly kill any chance for Germany's Manfred Weber to replace Jean-Claude Juncker as head of the commission. It would leave the EU's antitrust chief Margrethe Vestager as the favorite for the job. But it could also raise the chances of another controversial German -- Jens Weidmann -- to succeed Mario Draghi.

### **Deutsche Bank faces criminal investigation for potential money-laundering lapses**

(New York Times) Federal authorities are investigating whether Deutsche Bank complied with laws meant to stop money laundering and other crimes, the latest government examination of potential misconduct at one of the world's largest and most troubled banks, according to seven people familiar with the inquiry. The investigation includes a review of Deutsche Bank's handling of so-called suspicious activity reports that its employees prepared about possibly problematic transactions, including some linked to Trump's son-in-law and senior adviser, Jared Kushner, according to people close to the bank and others familiar with the matter.

### **Airbus says it must slash A350 costs to win wide-body price war**

(Bloomberg) Airbus SE is looking to cut manufacturing costs for wide-body jets including its latest A350 model as competition with Boeing Co. forces down prices and weighs on margins. A review of the company's jetliner plants is geared toward identifying inefficiencies and legacy industrial quirks, Michael Schöllhorn, the chief operating officer at the commercial-plane arm, who is leading the study, said in an interview. "We are in a price war on the wide-bodies, so we need to work on cost, especially on the A350," Schöllhorn said Wednesday at the Paris Air Show. "We are pretty complex, sometimes too complex." The study, reported last week by Bloomberg, concerns the whole industrial footprint, though that shouldn't be seen as indicating factory closures, he said.

### **Dell, HP, Microsoft, Intel oppose proposed tariffs on laptops, tablets**

(Reuters) Dell Technologies Inc, HP Inc, Microsoft Corp and Intel Corp on Wednesday opposed US President Donald Trump's proposal to include laptop computers and tablets among the Chinese goods targeted for tariffs. Dell, HP and Microsoft, which together account for 52% of the notebooks and detachable tablets sold in the US, said the proposed tariffs would increase the cost of laptops in the country. The move would hurt consumers and the industry, and would not address the Chinese trade practices that the Trump administration's office of the US Trade Representative (USTR) seeks to remedy, the four companies said in a joint statement posted online.

### **Apple explores moving 15-30% of production capacity from China: Nikkei**

(Reuters) Apple Inc has asked its major suppliers to assess the cost implications of moving 15%-30% of their production capacity from China to Southeast Asia as it prepares for a restructuring of its supply chain, according to a Nikkei Asian Review report on Wednesday. Apple's request was a result of the extended Sino-US trade dispute, but a trade resolution will not lead to a change in the company's decision, Nikkei said, citing multiple sources.

### **Renault, Nissan join Waymo in exploring driverless services in France, Japan**

(Reuters) French automaker Renault SA, its Japanese partner Nissan Motor Co and tech giant Alphabet Inc's Waymo are exploring a partnership to develop and use self-driving vehicles to transport people and goods in France and Japan, the companies said on Thursday. The proposed venture could also be expanded to other markets, the companies said. If the partnership is realized, it will have ramifications for other alliances and other self-driving projects, most of which have yet to hit the road.

### **Cannabis generates C\$186 mn in tax revenue in Canada in first months of legalization**

(Reuters) Canada's federal and provincial governments earned C\$186mn (\$140mn) in tax revenues from direct sales of cannabis in the first 5-1/2 months of legalization, Statistics Canada data showed on Wednesday, after two major provinces cut their revenue forecasts. Statistics Canada found Ottawa collected a combined C\$55mn in revenue via federal excise and goods and services taxes. Provincial tax revenues were estimated at a combined C\$132mn.

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