

MARKETS TODAY

Wednesday, June 26, 2019

MARKETS IN BRIEF

- U.S. dollar recovered along with Treasury yields after the Fed sounded yesterday less aggressive. However, markets were still pricing a 25 bps rate cut next months.
- U.S. stocks fell yesterday the most in more than three weeks as Fed Chair Powell warned the downside risks to the economy have increased and Trump administration officials signaled a trade deal at the G-20 meeting is unlikely.
- Asian retreated today tracking Wall Street's performance.
- NZ dollar rose as the RBNZ's tone was less dovish than market expectations, as it skipped a chance to cut interest rates.
- British pound slipped before the Bank of England publishes its closely-watched quarterly inflation forecasts at 12:15 LT. The currency continued to be pressured down by Brexit uncertainty.
- Gold prices reversed recent gains to trade back near \$1400 level.
- Oil prices jumped as widely-watched data showed U.S. crude stockpiles fell more than expected, underpinning a market already buoyed by worries over potential U.S.-Iran conflict. Official EIA weekly report will be released at 17:30 LT.
- Gulf markets still weighed by geo-political tensions. Saudi index managed snap a 4-day losing streak, helped by financial sector.

U.S. to restart trade talks ... Only if!

The US hopes to re-launch trade talks with China after President Donald Trump and President Xi Jinping meet in Japan on Saturday, but Washington will not accept any conditions around the US use of tariffs in the dispute, a senior administration official said on Tuesday. Trump has threatened to impose tariffs on another \$325bn of goods, covering nearly all the remaining Chinese imports into the US if the meeting with Xi produces no progress in resolving a host of US complaints around the way China does business. The two sides could agree not to impose new tariffs as a goodwill gesture to get negotiations going, the official said, but he said it was unclear if that would happen. Washington wants Beijing to come back the table with the promises it withdrew before talks broke down.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1366	-0.01%
GBP/\$	1.2672	-0.13%
AUD /\$	0.6976	0.22%
\$/JPY	107.47	-0.25%
\$/CAD	1.3163	0.05%
Gold \$	1406.99	-1.16%
WTI \$	59.03	2.08%
BRENT \$	66.10	1.61%
AMERICA		
DOW JONES	26548.22	-0.67%
S&P 500	2917.38	-0.95%
NASDAQ	7884.72	-1.51%
EUROPE		
STXE 600	383.40	-0.10%
CAC 40	5514.57	-0.13%
DAX	12228.44	-0.38%
ASIA PACIFIC		
S&P/ASX 200	6640.50	-0.26%
NIKKEI 225	21086.59	-0.51%
CSI 300 (China)	3794.33	-0.18%
MENA		
Saudi Arabia	8649.88	0.59%
Dubai	2619.39	-0.16%
Qatar	10450.59	-0.52%
BONDS		
U.S. 10-year	2.0106	0.0256
German Bund 10-yr	-0.3160	0.0150
AU 10-year	1.2780	-0.0050

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Fed trying to reduce the aggressive tone

US Fed officials on Tuesday pushed back on market expectations and presidential pressure for the central bank to deliver a significant US interest rate cut of half a percentage point as soon as its next meeting. Chairman Jerome Powell defended the central bank's independence from President Trump and financial markets, both of which seem to be pushing for aggressive rate cuts. Powell said he and his colleagues are currently grappling with whether uncertainties around US tariffs, Washington's conflict with trading partners and tame inflation require a rate cut.

"No deal" process threatening the Conservatives

Boris Johnson toughened his Brexit rhetoric with a "do or die" pledge to leave the EU on Oct. 31 as Jeremy Hunt, his underdog rival to become UK prime minister, battled to persuade Tory party members the strategy is flawed. The front-runner challenged Hunt to match his commitment to leave "come what may" in a letter posted on Twitter on Tuesday. Hunt countered that Johnson's insistence on the deadline could lead to a general election and a catastrophic defeat for the party at the hands of Jeremy Corbyn's opposition Labour Party.

RBNZ going with the "dovish" flow

New Zealand's central bank held interest rates steady on Wednesday but said further cuts to borrowing costs may be needed given growing economic risks at home and abroad. The Reserve Bank of New Zealand (RBNZ) kept the official cash rate (OCR) at a record low of 1.50%, as expected, and in a strikingly dovish statement warned that a global slowdown is hurting the domestic economy amid intensifying trade risks. Markets imply around a 63% chance of a reduction to 1.25% at the bank's next meeting on August 7, and are wagering heavily on 1% by year end.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	6.50	2.85%
SOLIDERE—B	6.50	6.56%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.00	-
BLOM BANK	8.00	-
BYBLOS BANK	1.22	-0.81%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.50	-

FX & COMMODITIES

The US dollar edged up from a 3-month low on Wednesday, as investors dialed back expectations for aggressive US rate cuts but underlying conviction the Fed will need to ease policy soon capped greenback gains. Fed Chairman Jerome Powell on Tuesday stressed the central bank's independence from US President Donald Trump, who is pushing for significant rate cuts. St. Louis Fed President James Bullard, seen as one of the most dovish US central bankers, surprised some investors by saying a 50 bps cut in rates "would be overdone." While this hosed down expectations for a half percentage point cut at the Fed's July meeting, investors are still expecting at least a quarter percentage point reduction. The scaling down in expectations for large rate cuts from the Fed also knocked gold prices by more than 1%, putting the precious metal on course for its first decline in seven trading sessions. The dollar index against a basket of currencies stood at 96.246 on Wednesday, just above a 3-month low of 95.843 touched on Tuesday. The US currency rose 0.25% to 107.47 yen, rebounding from 106.77 yen, its lowest level since its flash crash in early January. Interest rate futures are now pricing in a 27% chance of a 50 bps cut at the Fed's July meeting, down

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from 42% earlier, while a cut of at least 25 bps is seen as certain, according to the CME Group's FedWatch Tool. Traders are also eyeing a meeting between Trump and Chinese President Xi Jinping at a G20 summit over the weekend, but expectations are low for a breakthrough to end a year-long trade war between the world's two largest economies. Despite the slight moderation in Fed cut hopes, benchmark 10-year US Treasury yields slipped below 2% due to worries about a prolonged US-China trade war.

The New Zealand dollar bounced against the greenback after the nation's central bank skipped a chance to cut interest rates at a policy meeting. Traders still expect the Fed, the RBNZ, and other central banks to cut rates in coming months as the outlook for global growth dims, which will be a major driver of currency moves in coming months. The New Zealand dollar rose 0.32% to \$0.6660 after the RBNZ's decision to hold its cash rate at 1.5% as expected. Still, the tone was unmistakably dovish with minutes showing the policy-making committee discussed whether to ease at the meeting and agreed a move would likely be needed in time. Markets imply around a 63% chance of a reduction to 1.25% at the RBNZ's next meeting on Aug 7, and are wagering heavily on 1% by year end.

The British pound slipped 0.13% to \$1.2672 before the Bank of England publishes its closely-watched quarterly inflation forecasts later on Wednesday. The BoE has said rates would need to rise in a gradual fashion as long as Britain avoids a no-deal exit from the EU. However, sterling remains dogged by concerns that Eurosceptic Boris Johnson will become Britain's next prime minister, increasing the chance of a no-deal Brexit.

The euro was little changed at \$1.1366, pulling back slightly from a 3-month high of \$1.1412.

Gold fell 1.16% \$1,406.99 per ounce, retreating from a 6-year high of \$1,438.63.

Oil rose to a 4-week high after an industry report signaled a bigger-than-forecast drop in US crude stockpiles, adding more impetus to a rally that's been driven by a tense standoff between Washington and Tehran. Futures in New York climbed as much as 2.3% after closing down 0.1% Tuesday in the first drop in four days. The American Petroleum Institute reported that inventories fell by 7.55mn barrels last week, according to people familiar with the data. That would be the biggest decline in more than three months, if confirmed by government figures due Wednesday. Gasoline futures jumped in New York after Reuters reported that Philadelphia Energy Solutions is expected to close its refinery, the largest on the US East Coast.

ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
GBP—12:15	UK BoE Inflation Report Hearings		
USD—15:30	Durable Goods Orders MoM	0.00%	-2.10%
USD—15:30	Core Durable Goods Orders MoM	0.10%	0.00%
OIL—17:30	EIA Weekly Report	132.0	134.1

Thursday: Japan Retail Sales, German CPI, US Final GDP, Pending Home Sales, Initial Jobless Claims, Fed Bank Stress Results

Friday: G20-Meetings, Japan CPI, Housing Starts, German Import Prices, French Prelim CPI, UK Current Account, UK Final GDP QoQ, Eurozone CPI Flash Estimate YoY, Canada GDP MoM, US Core PCE Price Index, US Personal Spending, US Revised UoM Consumer Sentiment, Canada BoC Business Outlook Survey

Saturday: G20-Meetings

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CURRENCIES	LAST	1D	YTD
DXY	96.246	0.11%	0.08%
EUR/\$	1.1366	-0.01%	-0.88%
GBP/\$	1.2672	-0.13%	-0.64%
AUD /\$	0.6976	0.22%	-1.04%
NZD/\$	0.6660	0.32%	-0.88%
\$/JPY	107.47	-0.25%	2.07%
\$/CAD	1.3163	0.05%	3.60%
\$/CHF	0.9750	0.05%	0.73%
\$/SEK	9.2878	-0.09%	-4.68%
\$/NOK	8.5232	0.12%	1.38%
\$/DKK	6.5687	-0.01%	-0.87%
\$/TRY	5.7802	0.26%	-8.49%
EUR/GBP	0.8969	-0.14%	0.23%
EUR/JPY	122.14	-0.25%	3.02%
EUR/CHF	1.1082	0.07%	1.57%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1406.99	-1.16%	9.71%
Silver Spot \$/Oz	15.23	-0.89%	-1.68%
Platinum Spot \$/Oz	806.07	-0.53%	1.31%
Palladium Spot \$/Oz	1527.72	-0.17%	21.08%
COPPER \$/lb	272.55	-0.35%	3.06%
WTI \$/bbl	59.03	2.08%	29.99%
BRENT \$/bbl	66.10	1.61%	22.86%

EQUITIES & BONDS

Asian stocks dipped on Wednesday after Fed officials tempered expectations in the markets for aggressive monetary easing. According to latest data from CME Group's FedWatch program, federal funds futures implied that traders now see a 27% chance of the Fed lowering rates by half a percentage point in July, compared to 42% on Monday. MSCI's broadest index of Asia-Pacific shares outside Japan declined 0.15%, tracking overnight losses on Wall Street. The Shanghai Composite Index edged down 0.18% and Australian stocks dipped 0.26%. Nikkei retreated 0.51%.

US stock indexes fell on Tuesday, led by a sharp selloff in technology shares, as simmering trade concerns and disappointing economic data sent buyers to the sidelines, while the Fed chairman pushed back on pressure from President Donald Trump to cut interest rates. All three major US stock indexes ended the session in the red after Powell said the Fed was grappling with whether trade uncertainties and other issues warrant rate cuts. Speaking at the Council on Foreign relations, Powell also reiterated the Fed's independence, a day after Trump tweeted the Fed "doesn't know what it's doing." Earlier, St. Louis Fed President James Bullard in an interview with Bloomberg said he does not think the Fed needs to cut rates by a half-percentage point at its next policy meeting in late July. Bullard last week said he had dissented at the Fed's June policy meeting because he felt that weak inflation and uncertainties about the economic outlook supported a rate cut. US-China trade war anxieties found no relief in a White House official's remarks that Trump is "comfortable with any outcome" resulting from a planned meeting with

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EQUITIES & BONDS

Chinese President Xi Jinping at the Group of 20 summit convening in Japan on Friday. Of the 11 major indexes in the S&P 500, ten lost ground, with technology and communications services seeing the biggest percentage drops. Rate-sensitive bank stocks were down 0.6%, as US Treasuries benchmark yields fell below the closely watched 2% level. AbbVie Inc said it would buy Allergan Plc for about \$63bn, sending the Botox maker's shares up by 25.4%. AbbVie's stock dropped 16.3%. Tyson Foods Inc and Pilgrims Pride Corp dipped 1.1% and 1.3%, respectively, after the US Department of Justice opened a criminal probe over possible poultry price fixing.

Major Gulf stock markets dropped after the US imposed sanctions on Iran's leadership. The Saudi index snapped a four-day losing streak with gains coming in last 30 minutes of trading. Banks led the late rally with Riyadh Bank adding 2.8% and Saudi British Bank climbing 2.7%. The head of state-run energy giant Saudi Aramco said it could use its spare capacity to meet customer demand, in comments designed to ease concerns over oil supply security caused by recent attacks on oil tankers near the Strait of Hormuz, a key shipping route. MSCI Inc upgraded Kuwaiti equities to its main emerging markets index on Tuesday, which could trigger billions of dollars of inflows from passive funds. MSCI, the world's largest index provider, whose emerging-market group of indexes has about \$1.8tn of assets tied to it, also said it will consult on the potential reclassification of the MSCI Iceland Index to Frontier Markets status.

Saudi Aramco has signed 12 pacts with South Korean partners worth billions of dollars, the company said in a statement on Wednesday, as part of a long-term strategy for downstream growth and diversification. The agreements, signed with companies including Hyundai Heavy Industries, cover ship building, engine manufacturing, refining, petrochemicals, and crude supply, sales, and storage, it said.

COMPANY NEWS HEADLINES

- Bombardier Inc said it will sell its money-losing regional jet business to Japan's Mitsubishi Heavy Industries Ltd (MHI) for \$550mn in cash, in a deal marking the Canadian plane and train maker's exit from commercial aviation.
- Apple Inc on Tuesday confirmed that it has acquired self-driving shuttle firm Drive.ai. Technology news website The Information reported earlier this month that the iPhone maker was considering acquiring the firm as a move to bring aboard some of its engineering talent to boost Apple's own self-driving efforts.
- United Parcel Service Inc said on Tuesday it would not join a lawsuit FedEx Corp filed against the US government that argues FedEx should not be held liable if it inadvertently shipped products in violation of an export ban.
- Walt Disney Co has hired the head of Netflix Inc's original film division, Matt Brodlie, for its streaming service Disney+, according to a report by Deadline on Tuesday.
- Shares of Tesla Inc fell 1.7% on Tuesday after news website Electrek reported that the electric-car maker has so far delivered 49,000 vehicles in North America during Q2, threatening its goal of a new record.
- Mexican state power utility CFE said on Tuesday it will seek to negotiate a "fairer" resolution to contractual disputes with companies behind several pipelines yet to go into operation, and whose costs have been questioned by Mexico's president.
- Facebook Inc's fine for withholding WhatsApp messaging from a drug-trafficking investigation in Brazil should be reduced to 23mn reais (\$6mn), a Brazilian federal appeals court said on Tuesday.
- Oil services company TechnipFMC said it would pay \$301.3mn to resolve anti-corruption probes with Brazilian and US authorities, and added it was committed to resolving another probe on its affairs with French authorities.
- Walmart aims to list its Japanese supermarket unit Seiyu while keeping a majority stake in the business, the US company said in a statement on Wednesday, amid on-and-off speculation the retail giant was looking to exit the market.

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DOW JONES	26548.22	-0.67%	13.81%
S&P 500	2917.38	-0.95%	16.38%
NASDAQ	7884.72	-1.51%	18.83%
S&P/TSX	16371.28	-0.92%	14.30%
EUROPE	LAST	1D	YTD
STXE 600	383.40	-0.10%	13.55%
FTSE 100	7422.43	0.08%	10.32%
CAC 40	5514.57	-0.13%	16.57%
DAX	12228.44	-0.38%	15.81%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6640.50	-0.26%	17.61%
NIKKEI 225	21086.59	-0.51%	5.36%
TOPIX	1534.34	-0.59%	2.69%
CSI 300 (China)	3794.33	-0.18%	26.03%
MENA	LAST	1D	YTD
Saudi Arabia	8649.88	0.59%	10.52%
Abu Dhabi	4989.59	0.00%	1.52%
Dubai	2619.39	-0.16%	3.54%
Qatar	10450.59	-0.52%	1.47%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.0106	0.0256	-0.6736
Germany	-0.3160	0.0150	-0.5580
U.K.	0.8080	0.0140	-0.4690
Australia	1.2780	-0.0050	-1.0400

TOP SELECTED NEWS

Fed to hold Facebook's crypto coin to 'high' bar: Powell

(Reuters) The US Fed is looking carefully at Facebook's planned cryptocurrency Libra, and will hold it to high standards regarding protecting consumers and regulation, Fed Chairman Jerome Powell said on Tuesday. "Libra's a new thing; we are looking at it very carefully," Powell said in response to an audience question after a talk at the Council on Foreign Relations in New York. "Given the possible scale of it, I think that our expectations — from a consumer protection standpoint, from a regulatory standpoint — are going to be very, very high."

AbbVie's \$18 billion blowup brings deal Deja vu to some holders

(Bloomberg) AbbVie Inc.'s 15% drop after announcing a deal to pay \$63bn for Botox maker Allergan Plc may bring on Deja vu for some investors who are still feeling the burn from the drug-maker's last deal blowup. While the purchase would provide a band-aid of sorts for beaten-down AbbVie, investors can't help but remember how the company's purchase of Stemcentrx for \$5.8bn went up in flames. That deal, and its subsequent write off in January after drug-development stumbles, drew criticism from Wall Street analysts and ramped up pressure on management.



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TOP SELECTED NEWS

Natixis's H2O funds hemorrhage \$6.4 billion as crisis deepens

(Bloomberg) Natixis-backed H2O Asset Management, which until last week defied a slump in the industry with stellar returns, saw assets at a group of its largest funds experience their biggest ever single-day drop. After almost a decade of near-constant inflows, clients last week started to yank money from some of its funds over concerns about illiquid holdings tied to a controversial German businessman. The crisis worsened on Monday, the latest day for which figures are available, with assets in six of its funds down more than 5.6bn euros over just four days to less than 16bn euros. On Tuesday, H2O said in a statement that outflows had slowed.

Macron calls for synergies, alliances to strengthen Renault-Nissan

(Reuters) French President Emmanuel Macron on Wednesday called for further synergies and alliances to strengthen the Renault-Nissan partnership in a global market. "The Renault-Nissan alliance is a jewel in the industry," Macron told French expatriates in Tokyo. Nissan on Tuesday threw cold water on hopes for a quick fix to strained relations with France's Renault, saying inequality between the partners could unravel their two-decade-old auto-making alliance.

Juul loses home turf as San Francisco bans e-cigarette sales

(Reuters) San Francisco will become the first major city in the US to ban the sale of e-cigarettes as officials look to control the rapid uptick in teenage use of nicotine devices made by companies such as Juul Labs Inc. The San Francisco Board of Supervisors approved the ordinance on Tuesday, banning the sale and distribution of e-cigarettes until they have approval from the US Food and Drug Administration. States and cities across the US have already moved to ban flavored e-cigarettes and raise the legal age for purchasing tobacco products to 21, but San Francisco's new approach is the most far-reaching yet.

Secrets lawsuit to be dropped under Mitsubishi-Bombardier deal

(Reuters) A trade secrets lawsuit brought by Canada's Bombardier against the aircraft unit of Mitsubishi Heavy Industries Ltd has been "stayed" or suspended and will be dropped when a deal for the Japanese company to buy Bombardier's regional jet program closes, Mitsubishi said on Tuesday. Bombardier sued Mitsubishi Aircraft Corporation in October, alleging that former Bombardier employees had passed on trade secrets to help Mitsubishi's off-delayed regional jet project.

PG&E bondholders propose bankruptcy exit plan worth up to \$30 bln

(Reuters) A committee of bondholders of PG&E Corp's utility unit on Tuesday proposed a bankruptcy reorganization plan that would inject up to \$30bn to help the California power provider emerge from Chapter 11 and pay off its liability from wildfires. In a filing with the US bankruptcy court in San Francisco, the committee, made up of senior unsecured noteholders of Pacific Gas & Electric Co, also sought to terminate the utility's exclusive period for filing a Chapter 11 reorganization plan so the committee may file its own plan. PG&E has until Sept. 29 to file a plan.

FedEx reports 17.5% drop in quarterly profit

(Reuters) FedEx reported a 17.5% fall in quarterly profit on Tuesday, as an escalating US-China trade war continued to weigh on the package delivery company. Adjusted net income fell to \$1.32bn, or \$5.01 per share, for the Q4 ended May 31, from \$1.60bn, or \$5.91 per share, a year earlier. Revenue rose to \$17.8bn from \$17.3bn a year earlier.

Micron revenue beats, sees signs of improving demand

(Reuters) Micron Technology Inc beat analysts' estimates for quarterly revenue on Tuesday, and the chipmaker said it is seeing early signs of demand improvement. Net income attributable to Micron fell to \$840mn, or 74 cents per share, in Q3 ended May 30, from \$3.82bn, or \$3.10 per share, a year earlier. Revenue fell to \$4.79bn from \$7.80bn, beating analysts' estimates of \$4.69bn, according to IBES data from Refinitiv.

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