

# GLOBAL MARKETS

Wednesday, March 06, 2019

## Markets in brief

- U.S. dollar continued to trade firm helped by higher treasury yields and better-than-expected data. Today's focus: ADP Nonfarm Employment at 15:15 LT and Trade Balance at 15:30 LT.
- Australian dollar dropped to 2-month lows after disappointing GDP data. Next focus: Retail Sales and Trade Balance at 2:30 LT tomorrow.
- Canadian dollar traded near 5-week lows before Trade Balance at 15:30 LT and Bank of Canada policy decision at 17:00 LT.
- Oil prices slipped after data showing a rise in U.S. crude inventories.
- Asian shares held ground as Chinese stocks rallied on stimulus hopes.
- U.S. closed down after a choppy session.
- Most Gulf stock markets fell yesterday; Qatari index hit a 2-month low.

## Australia's economy slowing

Australia's slowing economy and rising calls for interest-rate cuts are starting to erode central bank chief Philip Lowe's optimistic outlook. The economy just experienced its weakest six-month period since the global financial crisis, according to Wednesday's gross domestic product data. Growth fell to an annualized 1% in the second half of last year from 3.8% in the first, as tumbling property prices and a credit squeeze dragged on construction and consumer spending. The result sets back the starting point for the Reserve Bank's forecast economic growth of 3%, a level needed to keep unemployment grinding lower. Lowe's 2-1/2 years at the helm have been marked by a disinclination to cut rates further and a belief that a sufficiently tight labor market will drive up wage growth and accelerate inflation back to target.

## Brexit talks didn't go well

Talks between European Union and British Brexit negotiators ended after more than three hours in Brussels on Tuesday and will resume on Wednesday, sources from both sides said (Reuters). An EU official said the talks did not go well. Neither side released any comments after the meeting, which involved the EU's Brexit negotiator Michel Barnier and the U.K.'s Brexit Secretary Stephen Barclay and Attorney General Geoffrey Cox.

## ... U.K. to set out a tariff plan

Britain will set out its approach to tariffs on imported goods only if it has taken a decision to leave the European Union without a deal, business minister Greg Clark said on Wednesday. Britain currently has tariff-free access to EU markets and it benefits from EU trade deals with other countries. But its exports will automatically face tariffs if it leaves on March 29 without a transition deal. Businesses have been waiting to find out whether the government will then impose reciprocal tariffs on imports from the EU. Parliament is due to hold votes next week on March 12 to determine whether it will accept an agreed divorce deal with the EU, leave with no deal or ask for a delay.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1300	-0.07%
GBP/\$	1.3135	-0.33%
AUD /\$	0.7034	-0.71%
NZD/\$	0.6773	-0.27%
\$/JPY	111.79	0.09%
\$/CAD	1.3366	-0.12%
\$/CHF	1.0049	-0.08%
Gold \$	1290.80	0.22%
Silver \$	15.15	0.06%
Platinum \$	833.75	-0.46%
WTI \$	56.16	-0.71%
BRENT \$	65.55	-0.47%
AMERICA		
DOW JONES	25806.63	-0.05%
S&P 500	2789.65	-0.11%
NASDAQ	7576.36	-0.02%
EUROPE		
STXE 600	375.64	0.15%
CAC 40	5297.52	0.21%
DAX	11620.74	0.24%
ASIA PACIFIC		
S&P/ASX 200	6245.62	0.75%
NIKKEI 225	21596.81	-0.60%
CSI 300 (China)	3854.12	1.00%
MENA		
Saudi Arabia	8561.37	-0.05%
Dubai	2636.80	-0.25%
Qatar	10010.24	-1.07%
BONDS		
U.S. 10-year	2.6988	-0.0002
German Bund 10-year	0.1360	-0.0003
AU 10-year	2.0950	-0.0006
BEIRUT S.E.		
SOLIDERE - A	6.40	-0.78%
SOLIDERE - B	6.46	0.62%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	5.40	7.57%
BLOM BANK	8.90	-
BYBLOS BANK	1.32	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

## FX & COMMODITIES

**The US dollar held gains against its peers early on Wednesday, thanks to higher US yields and better-than-expected data.** On Tuesday, the US dollar rose as unexpectedly strong data on US services industries and new home sales helped sooth some fears about the state of the world's top economy. The dollar index, which measures the greenback against a basket of six major peers, gained for the fifth straight session overnight, hitting a 2-week high of 97.008. It traded at 96.892 early on Wednesday. Investors were also looking to Friday's US non-farm payrolls release for February for fresh indications of wage growth and labor market strength.

**The Australian dollar took a knock after disappointing economic growth figures for last quarter.** The Australian dollar slipped 0.8% to a 2-month low of \$0.7028 as data released earlier in the day reinforced recent evidence of slowing domestic momentum and backed market expectations for a rate cut this year. Economic growth came in at a disappointing 0.2% in Q4, below an expected 0.3%, an outcome sure to keep the RBA on heightened watch after it abandoned its long-held tightening bias last month. On Tuesday, the RBA ended a 30th straight meeting with rates at a record-low 1.50%. The Aussie was last down 0.71% at \$0.7062. It also lost as much as half a% against the Japanese yen.

**The euro was down at \$1.1300, hovering near 2-wk lows versus the dollar amid bets that the ECB meeting on Thursday would indicate a delay in raising rates until next year and soon re-launch long-term bank loans to fight an economic slowdown.**

**Among other G10 currencies, the Canadian dollar traded close to its lowest level in five weeks, hurt by a combination of trade troubles, resignations from PM Justin Trudeau's cabinet and bets the Bank of Canada (BoC) could be close to changing its policy direction.** The BoC is expected to leave domestic borrowing costs unchanged at its policy meeting later on Wednesday, though some traders expect it might lower rates later this year.

**Oil prices slipped on Wednesday as bullish output forecasts by two big US producers and a build in weekly US crude stockpiles outweighed ongoing OPEC-led production cuts.** Chevron Corp and Exxon Mobil Corp released rival Permian Basin projections on Tuesday pointing to increased shale oil production. If realized, the increases would cement the pair as the dominant players in the West Texas and New Mexico field, with one-third of Permian production potentially under their control within five years. Data from the API, an industry group, also showed larger-than-expected US crude stockpiles. US crude inventories rose by 7.3 million barrels in the week ending March 1 to 451.5 million, compared with analysts' expectations for an increase of 1.2 million barrels, API said.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	96.892	0.03%	0.75%
EUR/\$	1.1300	-0.07%	-1.46%
GBP/\$	1.3135	-0.33%	2.99%
AUD /\$	0.7034	-0.71%	-0.21%
NZD/\$	0.6773	-0.27%	0.80%
\$/JPY	111.79	0.09%	-1.88%
\$/CAD	1.3366	-0.12%	2.03%
\$/CHF	1.0049	-0.08%	-2.27%
\$/SEK	9.3196	-0.11%	-5.00%
\$/NOK	8.6811	-0.21%	-0.46%
\$/DKK	6.6033	-0.08%	-1.39%
\$/TRY	5.3869	-0.01%	-1.81%
EUR/GBP	0.8602	-0.25%	4.50%
EUR/JPY	126.32	0.17%	-0.39%
EUR/CHF	1.1355	0.00%	-0.88%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1290.80	0.22%	0.65%
Silver Spot \$/Oz	15.15	0.06%	-2.25%
Platinum Spot \$/Oz	833.75	-0.46%	4.79%
Palladium Spot \$/Oz	1510.60	-0.56%	19.72%
COPPER \$/lb	292.70	-0.22%	11.00%
WTI \$/bbl	56.16	-0.71%	23.67%
BRENT \$/bbl	65.55	-0.47%	21.84%

### In focus today 🕒

	TIME (LT)	EVENT	FCAST	PRIOR
USD	15:15	US ADP Nonfarm Employment	190k	213k
CAD	15:30	Canada Trade Balance	-2.4B	-2.1B
USD	15:30	US Trade Balance	-57.8B	-49.3B
CAD	17:00	Canada BoC Policy Decision	1.75%	1.75%
CAD	17:00	Canada Ivey PMI	55.1	54.7
OIL	17:30	EIA Weekly Report		
USD	21:00	US Fed Beige Book		

**Thursday:** AU Retail Sales, AU Trade Balance, ECB Policy Decision + Press Conference, US Initial Jobless Claims

**Friday:** China Trade Balance, Canada Jobs Report, US Jobs Report, US Building Permits

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## STOCKS & BONDS

Asian stocks held their ground on Wednesday as Chinese equities rallied on stimulus hopes, although a resurgence in regional tensions capped broader gains with North Korea opting to restore part of a missile test site it had begun dismantling earlier. The Shanghai Composite was up 1%, hovering near a 9-month high, as China's state planner said the gov't will boost domestic consumption further this year. Beijing announced billions of dollars in tax cuts and infrastructure spending on Tuesday to reduce the risk of a sharper economic slowdown. Hang Seng added 0.1% and Australian stocks advanced 0.75% as mining stocks climbed on the prospect of increased Chinese stimulus. Some of the region's other equity markets, however, underperformed. South Korea's KOSPI was down 0.25% following news that North Korea had restored part of a missile test site, with Trump's national security advisor John Bolton warning that new sanctions could be introduced if Pyongyang did not scrap its nuclear weapons program. Nikkei lost 0.6%. MSCI's broadest index of Asia-Pacific shares outside Japan nudged up 0.1%.

US stocks dipped in a choppy session on Tuesday as a drop in General Electric shares countered positive retailer earnings and investors eyed a key resistance level for the benchmark S&P 500 after the market's strong run. Concerns over US-China trade relations also hovered, as US Secretary of State Mike Pompeo said Trump would reject a trade deal that was not perfect, but the US would still keep working on an agreement. Optimism over the trade talks and over the Fed being less aggressive in raising interest rates has helped boost the S&P 500 by 11% this year. Investors are watching to see if the S&P 500 can breach 2,800, a level which the index has traded near for several sessions. Communication services led gains among the 11 S&P 500 sectors, while industrials fell the most. The consumer discretionary sector rose 0.2%, led by a 7.3% gain in Kohl's and 4.6% gain for Target following those retailers' respective earnings reports. Both forecast 2019 profit above Wall Street estimates. In other corporate news, General Electric shares dropped 4.7% as the conglomerate surprised investors by forecasting a net cash outflow from its industrial businesses this year. GE shares were among the biggest drags on the S&P 500. Willis Towers Watson shares rose 5.2% as Aon Plc said it was in early talks to buy the rival insurance brokerage. Aon shares fell 7.8% and weighed on the S&P 500.

Most Gulf stock markets ended lower yesterday, mostly pressured by financial shares. The Qatari index slid to a 2-month low, weighed down by its blue-chips. It fell 1.1%, with Vodafone Qatar losing 3.2% after approving a regulatory decision to reduce the nominal value of its shares to 1 riyal each.

The benchmark 10-year US Treasury yield stood at 2.70%, after last scaling 2.768%, its highest since Jan. 23, on Monday. US Treasury bond yields were higher on Tuesday following a report showing business activity and spending jumped in non-manufacturing sectors in February, and after strong earnings from Target Corp encouraged investors to discount earlier reports of slowing US retail sales.

	LAST	1D	YTD
<b>AMERICA</b>			
DOW JONES	25806.63	-0.05%	10.63%
S&P 500	2789.65	-0.11%	11.28%
NASDAQ	7576.36	-0.02%	14.18%
S&P/TSX	16086.54	0.30%	12.31%
<b>EUROPE</b>			
STXE 600	375.64	0.15%	11.25%
FTSE 100	7183.43	0.69%	6.77%
CAC 40	5297.52	0.21%	11.98%
DAX	11620.74	0.24%	10.06%
<b>ASIA PACIFIC</b>			
S&P/ASX 200	6245.62	0.75%	10.61%
NIKKEI 225	21596.81	-0.60%	7.90%
TOPIX	1615.25	-0.25%	8.11%
CSI 300 (China)	3854.12	1.00%	28.02%
<b>MENA</b>			
Saudi Arabia	8561.37	-0.05%	9.39%
Abu Dhabi	5087.34	-0.28%	1.77%
Dubai	2636.80	-0.25%	4.19%
Qatar	10010.24	-1.07%	-3.65%
Oman	4165.98	0.31%	-3.91%
Egypt	14728.38	-0.59%	12.98%
Kuwait	5571.77	0.40%	5.86%
Bahrain	1414.33	0.12%	5.68%
<b>10-YEAR BONDS</b>			
U.S.	2.6988	-0.0181	0.0146
Germany	0.1360	-0.0320	-0.1060
U.K.	1.2870	0.0140	0.0100
France	0.5320	-0.0290	-0.1780
Australia	2.0950	-0.0610	-0.2230
Japan	-0.0060	-0.0160	-0.0090

## Major Company News

- Dialog Semiconductor said revenues would decline this year as it completes the \$600 million transfer of programmers and patents to iPhone maker Apple, as it announced a 2% rise in Q4 operating profits.
- Two private partners of Mexico's state-run oil company Pemex will invest a combined \$250 million in two projects over the next four years as they aim to quickly ramp up crude output, according to plans approved on Tuesday.
- The US Food and Drug Administration on Tuesday said it approved a Johnson & Johnson nasal spray antidepressant for people resistant to other treatments but placed restrictions on use of the drug, which it warned could be misused and abused.
- Tesla Inc's largest shareholder expressed its support for Chief Executive Officer Elon Musk, but acknowledged that it was open to a different role for the electric carmaker's founder and CEO, Barron's reported on Tuesday.
- Activist investor Barington Capital on Tuesday urged L Brands to separate its Victoria's Secret and Bath & Body Works businesses, in an effort to turn around the struggling consumer brands owner.

## TOP SELECTED NEWS

### US Fed mulls tighter rules on foreign bank branches

(Reuters) The US Fed is considering imposing stricter rules on foreign bank branches to tighten what critics say is a loophole that has allowed overseas lenders to shield assets from the toughest US bank rules, three people with knowledge of the matter told Reuters. The changes being discussed could be a blow for lenders such as Deutsche Bank, Credit Suisse Group AG and UBS Group AG and which have for years held billions of dollars in assets, such as corporate loans, at their New York branches. The possible rule changes, that have not yet been decided, could also inflame tensions with European regulators who have long-complained that their lenders are held to higher standards in the US than domestic rivals. The changes are being considered as part of a broader package tweaking rules for overseas lenders due to be unveiled by the Fed in coming weeks, the people said. Any proposed changes would be subject to industry comment and feedback.

### Widening Russia money laundering scandal hits EU banks

(Bloomberg) More European banks are being drawn into money-laundering allegations centered on dirty Russian money, adding to the scandal in an industry still recovering from the financial crisis. Initially centered on Danske Bank A/S in Denmark and Sweden's Swedbank AB, allegations of suspicious transfers widened this week to include Raiffeisen Bank International AG in Austria and several Dutch institutions. Danske has lost half its market value since admitting its role in a money laundering scandal in 2016. The disclosures describe a network of banking relationships that was used to export funds from criminals in the former Soviet Union to western nations, often via Estonia and Lithuania. Investigations are under way in the Baltic nations, the US, the UK and the Nordic countries, but almost daily revelations suggest there are more surprises to come on the scale of the misconduct. Raiffeisen Bank International AG led declines in European banking shares on Tuesday -- slumping as much as 15% -- after Bill Browder's Hermitage Fund said the bank ignored warning signs that would have helped stop the laundering of funds from Russian criminal activity. Dutch banks fell after a report that the three largest were used to move cash from Russia.

### Wall Street said to curb shady CDS deals to hold off watchdogs

(Bloomberg) Wall Street banks and hedge funds are closing in on a fix that they hope will clean up an \$8 trillion portion of the derivatives market that's gained a reputation for being one of the shadiest corners in finance. At issue are a number of transactions in recent years in which powerful investment firms have been accused of earning big money from swaps trades by enticing companies to miss bond payments they could otherwise make. The practice has eroded market confidence, triggered legal fights and led to scrutiny from regulators. After months of negotiations, titans including Goldman Sachs, JPMorgan Chase, Apollo Global Management and Ares Capital have agreed to a plan that's intended to ensure defaults are tied to legitimate financial stress, not traders' derivatives bets, said three people familiar with the matter. An industry trade group, the International Swaps and Derivatives Association, may propose the overhaul as soon as Wednesday.

### U.S. new home sales at 7-m high; services sector picks up

(Reuters) Sales of new U.S. single-family homes rose to a seven-month high in December, but November's outsized jump

was revised lower, pointing to continued weakness in the housing market. While other data on Tuesday showed a rebound in growth in the vast services sector in February amid a surge in new orders, concerns about import tariffs, capacity constraints and labor shortages lingered. The trade dispute between the United States and China is among the factors that analysts say will contribute to slower economic growth this year. Growth is softening as the stimulus from a \$1.5 trillion tax cut package and increased government spending ebbs. The economy's outlook is also being clouded by slowing global growth and uncertainty over Britain's exit from the EU.

### AB InBev chairman to step Down to focus on JAB roles

(Bloomberg) Anheuser-Busch InBev NV Chairman Olivier Goudet is stepping down from the world's largest brewer to focus on his roles as managing partner and chief executive officer at JAB Holding Co. Goudet will resign at AB InBev's shareholder meeting on April 24, the beer company said in an emailed statement. His departure illustrates the growing market sway that JAB has accumulated in the beverage and restaurant industries. The investment company, which counts the billionaire Reimann family among its backers, has gone on an acquisition spree in recent years, including chains such as Pret a Manger and Panera Bread Co. "The board's succession plan has been developed since last year and we have been working with Mr. Goudet on a smooth transition," the company said. "His successor, along with new members of our board, will be announced in due course in the context of our annual shareholders meeting."

### Exxon, Chevron big output hike adds to OPEC's woes

(Bloomberg) Chevron Corp. and Exxon Mobil Corp. plan to sharply increase their oil production in the world's largest shale basin over the next five years, flooding markets with new supplies as demand growth is slowing. Within hours of each other on Tuesday, the two largest energy companies in America announced they want to pump almost 2 million barrels a day combined in the Permian Basin of west Texas and New Mexico, a higher amount than most OPEC nations. Chevron plans to reach 900,000 barrels a day by 2023, while Exxon aims for 1 million by 2024. "Our position in the Permian just continues to get better and underpins our resource base," Chevron Chief Executive Officer Mike Wirth said in New York. The value of the company's Permian position has doubled over the past two years with reserve additions, he said.

### Jeans maker Diesel USA files for bankruptcy

(Reuters) Diesel USA Inc, the denim and accessory brand known for its jeans, filed for bankruptcy on Tuesday, blaming mounting losses, a sales plunge, expensive leases and cyber fraud. The New York-based unit of Italy's Diesel SpA filed for Chapter 11 protection from creditors with the US bankruptcy court in Delaware. Its parent is not part of the filing. Diesel USA said it has been the sole distributor of Diesel products in the US since its 1995 launch. But it said it has not been spared in the recent downturn in the retail sector, having lost money for six straight years as annual sales plunged 53%, to \$104 million. Theft and cyber fraud cost \$1.2 million over three years, it added. In a court filing, Chief Restructuring Officer Mark Samson said Diesel USA has no plans to close, but intends to exit some of its 28 stores, where landlords' refusal to offer lease concessions has led to heavy losses.



Wednesday, March 06, 2019

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