GLOBAL MARKETS

Thursday, March 07, 2019

Markets in brief

- Euro remained under pressure ahead of the ECB policy decision at 14:45 LT, which will be followed by a press conference at 15:30 LT.
- Australian dollar recovered slightly after falling on weak retail sales data.
- Canadian dollar hit 2-month lows as traders lowered their rate hike expectations.
- Oil prices continued to trade mixed as U.S. increased output countered the effect of OPEC-led supply cuts.
- Asian stocks retreated today amid cautious market sentiment.
- U.S. stocks fell for a 3rd session, with the S&P posting its biggest 1-day decline in a month, led by healthcare and energy shares.

Will the ECB continue with its dovish tone today?

When the ECB top officials meet today, there is no way that they can ignore the worsening economic picture across the euro zone. There's even a chance they may highlight a potential policy response for the downturn, with uncertainties such as the U.S.-China trade war and Brexit still clouding the economic horizon. This could be a renewal of its targeted long-term financing operations (TLTROs) for banks — these are multi-year cheap loans for the lenders — or even the lifting of the ECB's deposit rate — the charge it gives to banks to hold cash — which could help them on the cost side.

OECD warning that worse may be ahead

The global economy is suffering more than expected from trade tensions and political uncertainty which are clouding prospects particularly in Europe, according to a gloomy report from the OECD. Weakness in the euro area and China are proving more persistent, trade growth has slowed sharply and uncertainty over Brexit has continued. Central banks including the Fed have already responded to the changed circumstances, and the ECB may soon follow. China, forced to lower its goal for economic growth this week, has rolled out tax cuts to stimulate its economy. The OECD forecast in its interim outlook report that the world economy would grow 3.3% in 2019 and 3.4% in 2020. Those forecasts represented cuts of 0.2%age points for 2019 and 0.1%age points for 2020, compared to the OECD's November forecasts.

EU not that optimistic

European officials are pessimistic about the chances of a breakthrough in Brexit talks this week, as negotiators suspect that whatever they offer won't be enough to get Parliament to back Theresa May's deal. According to three people familiar with the situation, there's increasing concern on the European side that any concessions the bloc would be prepared to give wouldn't be sufficient to win a majority in the House of Commons. The EU is reluctant to shift its position if it's not sure it would get the deal over the line. Britain sees early Monday as the absolute deadline for talks. If the deal is rejected Tuesday, officials won't return to Brussels.

U.S. trade gap jumping to 10-year high

The U.S. trade deficit widened in 2018 to a 10-year high of $621 billion, bucking Trump's pledges to reduce it, as tax cuts boosted domestic demand for imports while the strong dollar and retaliatory tariffs weighed on exports. The annual deficit in goods and services increased by $68.8 billion, or 12.5%, Commerce Department data showed Wednesday. The December gap jumped from the prior month to $59.8 billion, also a 10-year high and wider than the median estimate of economists. The merchandise-trade deficit with China -- the principal target of Trump's trade war -- hit a record $419.2 billion in 2018. As a share of the economy, the gap widened to 3% of GDP from 2.8% in 2017. It's still significantly smaller than in the decade before the Great Recession, when it approached 6%.

FX & COMMODITIES	LAST	1D
EUR/$	1.1302	-0.04%
GBP/$	1.3170	0.00%
AUD /$	0.7043	0.16%
NZD/$	0.6782	0.19%
$/JPY	111.73	0.04%
$/CAD	1.3443	-0.01%
$/CHF	1.0048	0.01%
Gold $	1284.44	-0.15%
Silver $	15.05	-0.17%
Platinum $	826.33	-0.13%
WTI $	56.24	0.04%
BRENT $	66.13	0.21%
AMERICA		
DOW JONES	25673.46	-0.52%
S&P 500	2771.45	-0.65%
NASDAQ	7505.92	-0.93%
EUROPE		
STXE 600	375.48	-0.04%
CAC 40	5288.81	-0.16%
DAX	11587.63	-0.28%
ASIA PACIFIC		
S&P/ASX 200	6263.89	0.29%
NIKKEI 225	21456.01	-0.65%
CSI 300 (China)	3809.93	-0.99%
MENA		
Saudi Arabia	8534.16	-0.32%
Dubai	2626.13	-0.40%
Qatar	9884.21	-1.26%
BONDS		
U.S. 10-year	2.6861	-0.0001
German Bund 10-year	0.1260	0.0000
AU 10-year	2.0850	-0.0001

BEIRUT S.E.		
SOLIDERE - A	6.61	3.28%
SOLIDERE - B	6.62	2.48%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	5.40	-
BLOM BANK	8.90	-
BYBLOS BANK	1.32	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

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FX & COMMODITIES

The Japanese yen rose to its strongest level this week and Treasuries edged higher as investors sought havens before a ECB policy meeting Thursday and US payrolls the following day. Risk sentiment was dented as the ECB was said to be poised to lower 2019 growth forecasts by enough to justify another round of loans for banks. A report on American employment due Friday added to the caution, with US hiring forecast to have moderated last month. Major currencies kept to tight ranges. The euro trod water at $1.1302, about 1.0% below a 1-m high hit on Thursday last week.

The Australian dollar traded near a session high on short covering after exporters soaked up leveraged selling that followed weaker-than-estimated retail sales data. The Aussie was last at $0.7043, pulling up slightly after edging down to a fresh 2-month low of $0.7021 earlier. Australian retail sales rose 0.1% in Jan, less than an expected 0.3%, data on Thursday showed. The country's Q4 economic growth had come in below expectations on Wednesday, reinforcing evidence of slowing domestic momentum and backing market expectations for a rate cut this year.

The Canadian dollar hit 2-month lows as investors trimmed holdings on growing expectations policymakers would leave interest rates alone for the time being or even lower them to counter the weakening economy. The Bank of Canada (BoC) on Wednesday said there was "increased uncertainty" about the timing of future rate hikes as it held interest rates steady at 1.75% as expected. The Canadian dollar fell as low as C$1.3457 after the release of the BoC's latest policy statement, its lowest against the greenback since Jan 4. On Thursday, it was flat at C$1.3443.

The dollar index, which measures the greenback against a basket of six key rivals, remained untraded on Thursday after ending Wednesday at 96.873. Traders have remained bullish on the dollar in view of the continuing uncertainties over the UK's exit from the EU and US-China trade negotiations. The dollar index has gained 1.1% over the last six trading sessions after hitting its lowest level since early February on Thursday last week. Against the yen, the dollar was down 0.1% at 111.73 yen, but still not far off a recent peak of 112.135 hit on Tuesday, its strongest since Dec. 20.

Oil edged up on Thursday amid ongoing OPEC-led supply cuts and US sanctions against exporters Venezuela and Iran, but price gains were capped by record US crude output and rising commercial fuel inventories. Prices are being supported by efforts led by the OPEC and other countries - a grouping known as 'OPEC+' - to withhold around 1.2 million barrels per day (bpd) of oil, a strategy aimed at tightening markets. US sanctions against the oil industries of OPEC members Iran and Venezuela have also had an impact, traders said.

	LAST	1D	YTD
CURRENCIES			
DXY	96.909	0.04%	0.77%
EUR/$	1.1302	-0.04%	-1.44%
GBP/$	1.3170	0.00%	3.26%
AUD /$	0.7043	0.16%	-0.09%
NZD/$	0.6782	0.19%	0.94%
$/JPY	111.73	0.04%	-1.83%
$/CAD	1.3443	-0.01%	1.44%
$/CHF	1.0048	0.01%	-2.26%
$/SEK	9.2987	0.03%	-4.79%
$/NOK	8.6646	0.01%	-0.27%
$/DKK	6.6012	-0.04%	-1.36%
$/TRY	5.4378	-0.18%	-2.73%
EUR/GBP	0.8582	0.03%	4.75%
EUR/JPY	126.28	0.08%	-0.36%
EUR/CHF	1.1356	0.06%	-0.89%
COMMODITIES			
Gold Spot $/Oz	1284.44	-0.15%	0.15%
Silver Spot $/Oz	15.05	-0.17%	-2.86%
Platinum Spot $/Oz	826.33	-0.13%	3.86%
Palladium Spot $/Oz	1533.21	-0.23%	21.51%
COPPER $/lb	291.10	-0.26%	10.39%
WTI $/bbl	56.24	0.04%	23.85%
BRENT $/bbl	66.13	0.21%	22.92%

In focus today ⌛

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	**14:45**	ECB Policy Decision	0.00%	0.00%
EUR	**15:30**	ECB Press Conference		
USD	**15:30**	US Initial Jobless Claims	225k	225k

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

STOCKS & BONDS

Asian shares eased on Thursday, as investors showed caution over the outlook for global growth as they awaited the outcome of Sino-US trade negotiations. MSCI's broadest index of Asia-Pacific shares outside Japan edged 0.3% lower on Thursday, yet hovering not far from its five-month high marked last week, and was up 10% year-to-date. Japan's Nikkei average fell 0.7%. Chinese stocks were mixed, with the Shanghai Composite rising 0.2%, while the blue-chip CSI 300 and Hong Kong's Hang Seng shed 1.0% and 0.7%, respectively.

US stocks fell for a third session on Wednesday, with the S&P 500 posting its biggest one-day decline in a month, as healthcare and energy shares slumped and investors sought reasons to buy after the market's strong rally to start the year. With corporate earnings season ending, investors are looking for next catalysts to drive the market, including a potential trade agreement between the US and China and economic data, including Friday's employment report. Optimism over a trade deal and over the Fed becoming less aggressive on raising interest rates have helped fuel a 10.6% rise for the S&P 500 this year, although the rally has stalled in recent days. The small-cap Russell 2000 dropped 2.0%, its biggest 1-day %age decline of the year. The closely followed Dow Jones Transport Average fell 0.5%, its ninth consecutive session of declines, which is its longest losing streak since February 2009. Investors say the 2,800 level on the S&P 500 has provided technical resistance to the benchmark index moving higher, although the index has breached its 200-day moving average, another key level. The S&P 500 healthcare sector lost 1.5%, with Pfizer Inc down 2.4% and Amgen off 3.0%. Tuesday's surprise resignation of Food and Drug Administration commissioner Scott Gottlieb raised uncertainty about biotech and pharmaceutical stocks in a sector that already has been shaken by the potential for drug-pricing and other healthcare legislation. The energy sector dropped 1.3% as US crude prices dipped and Exxon Mobil shares fell 1.1% after the oil company said it plans to boost spending for several years to restore flagging oil and gas production. In other corporate news, General Electric shares fell 7.9%, extending losses from a day earlier when the conglomerate's chief executive warned of negative industrial cash flow this year.

Gulf stock markets ended down yesterday. Abu Dhabi index fell sharply for its worst day in 8 months. Qatari index touched its lowest in nearly 5 months, pressured respectively by First Abu Dhabi Bank (FAB) and Industries Qatar going ex-dividend. The Abu Dhabi index fell 2.2%, its biggest intraday loss since June 2018, with largest lender First Abu Dhabi Bank dropping 5.2% after going ex-dividend. The bank had declared a cash dividend of 0.74 dirhams last month.

Short-dated Italian bond yields briefly hit their lowest level in seven months ahead of Thursday's ECB meeting in which policymakers are expected to announce a new round of cheap loans that should benefit Italian lenders. Italy's two-year bond yields hit 0.198 pct in early trade on Thursday, before settling at 0.23%, still down 4 basis points on the day.

	LAST	1D	YTD
AMERICA			
DOW JONES	25673.46	-0.52%	10.06%
S&P 500	2771.45	-0.65%	10.56%
NASDAQ	7505.92	-0.93%	13.12%
S&P/TSX	16092.07	0.03%	12.35%
EUROPE			
STXE 600	375.48	-0.04%	11.20%
FTSE 100	7196.00	0.17%	6.95%
CAC 40	5288.81	-0.16%	11.80%
DAX	11587.63	-0.28%	9.74%
ASIA PACIFIC			
S&P/ASX 200	6263.89	0.29%	10.94%
NIKKEI 225	21456.01	-0.65%	7.20%
TOPIX	1601.66	-0.84%	7.20%
CSI 300 (China)	3809.93	-0.99%	26.55%
MENA			
Saudi Arabia	8534.16	-0.32%	9.04%
Abu Dhabi	4977.19	-2.17%	1.23%
Dubai	2626.13	-0.40%	3.48%
Qatar	9884.21	-1.26%	-4.76%
Oman	4153.42	-0.30%	-4.07%
Egypt	14643.09	-0.58%	12.33%
Kuwait	5596.45	0.44%	6.00%
Bahrain	1410.83	-0.25%	5.45%
10-YEAR BONDS			
U.S.	2.6861	-0.0073	0.0019
Germany	0.1260	-0.0020	-0.1160
U.K.	1.2270	-0.0600	-0.0500
France	0.5100	-0.0020	-0.2000
Autralia	2.0850	-0.0100	-0.2330
Japan	-0.0080	-0.0040	-0.0110

Major Company News

- Deutsche Post DHL Group said a restructuring program in its German post-and-parcel division will help boost profit this year and that there were no signs of sluggish global trade despite rising geopolitical tensions.
- Boeing Co is indicating "full speed ahead" for a new midsized airplane in what would be the first all-new jet program for the world's biggest planemaker in more than a decade, Air Lease Corp's chief executive, John Plueger, said on Wednesday.
- German fintech Raisin, which is backed by Paypal, is buying Frankfurt-based MHB Bank as it seeks to expand business of offering deposit services to retail customers, Raisin's chief executive told Reuters.
- Hyundai is considering plans to suspend production at its oldest plant in China, the South Korean carmaker said on Wednesday, as it reels from tumbling sales and massive overcapacity in its biggest market.
- Aon Plc said on Wednesday it had scrapped plans to pursue a merger with rival insurance brokerage Willis Towers Watson Plc, a day after it revealed it was in early stages of considering an all-stock offer.
- Volkswagen cannot buy a stake in Russian automaker GAZ because the company is under US sanctions and talks on a deal have been suspended, the RIA news agency cited the head of the Russian office of Volkswagen as saying on Wednesday.
- The NBA will offer fans in China original programming and an easier way to buy league gear through e-commerce giant Alibaba Group, the league announced on Wednesday.
- Amazon.com will close all of its US pop-up stores and focus instead on opening more book stores (Reuters)
- Dollar Tree Inc announced plans to close hundreds more Family Dollar stores on Wednesday as it wrote off $2.7 bn, or nearly a third of the value of the struggling discount chain it bought for $9 bn 4 years ago.

TOP SELECTED NEWS

Tariffs, shutdown weigh on still-growing economy: Fed

(Reuters) Slowing global growth and the 35-day partial federal government shutdown weighed on the U.S. economy in the first weeks of 2019, but it continued growing amid still-tight labor markets, the Federal Reserve reported on Wednesday. "Economic activity continued to expand in late January and February," even as concerns took root at the U.S. central bank about a possible slowdown, the Fed said in its regular "Beige Book" compendium of anecdotes compiled from industry and business contacts around the country. The pace of growth was "slight-to-moderate" in 10 of the Fed's 12 districts, with those in Philadelphia and St. Louis reporting "flat economic conditions." Still, the overall tenor of the Beige Book may relieve some of the concerns about growth in the real economy that prompted the Fed to pause its cycle of interest rate hikes in January after a sharp correction in financial markets and other risks began increasing late last year. Tighter credit conditions were cited as damping consumer spending; concerns about tariffs continued to weigh on the minds of executives and crimp profits as input costs rose more than could be passed along to consumers; and the government shutdown "led to slower economic activity in some sectors" including manufacturing, retail and real estate, across roughly half of the Fed's districts. Job and wage gains, however, continued, with the St. Louis district reporting that opportunities for work were so plentiful that college enrollment was dropping "as potential students were increasingly choosing to enter the labor market."

Australian shoppers stay at home in January

(Reuters) Australian retailers suffered another bleak month in January, pointing to a tepid start for the new year after economic momentum slowed last quarter. Retail sales rose 0.1% in January, figures from the Australian Bureau of Statistics (ABS) showed on Thursday, picking up from a shock 0.4% decline the previous month but missing expectations for a 0.3% increase. The currency was already nursing losses from the previous day when GDP figures showed Australia's $1.3 trillion economy slowed sharply in the second half of last year. The soft number increases the risk that economic growth in the first quarter will remain weak, and adds pressure on the central bank to ease policy. Household spending accounts for around 57% of Australia's annual GDP. Consumer spending has been weighed down by record-high household debt and sluggish wage growth, one reason investors believe the RBA could now consider cutting interest rates from an all-time low of 1.50%. Calls from some analysts for the RBA to ease policy this year have intensified after Wednesday's GDP data. Futures markets predict a full 25-basis-point cut in October, a remarkable turnaround from just a couple of months ago when investors were positioned for a rate hike.

Bank of Canada holds rates; pace of hikes uncertain

(Reuters) Faced with a slowing global and domestic economy, the Bank of Canada held interest rates steady as expected on Wednesday and took a slightly more dovish tone, saying there was "increased uncertainty" about the timing of future rate increases. The central bank said it now expects the Canadian economy will be weaker in the first half of 2019 than it projected in January, and that it was watching developments in household spending, oil markets and global trade. The Bank of Canada has raised its rates five times since July 2017, though it has held its overnight interest rate steady at 1.75% since October of last year. It made clear on Wednesday that future hikes were still on the table, but were not imminent, removing wording around the need for rates to rise to the neutral range over time. "Governing Council judges that the outlook continues to warrant a policy interest rate that is below its neutral range," it said in a statement, adding that there was "increased uncertainty about the timing of future rate increases."

Huawei sues US government

(Reuters) Chinese telecoms equipment maker Huawei Technologies sued the US government on Thursday saying a law limiting its US business was unconstitutional, ratcheting up its fight back against a government bent on closing it out of global markets. Huawei said it had filed a complaint in a federal court in Texas challenging Section 889 of the National Defense Authorization Act (NDAA), signed into law by US President Donald Trump in August, which bars federal agencies and their contractors from procuring its equipment and services. The lawsuit marks the latest confrontation between China and the US, which spent most of 2018 slapping import tariffs on billions of dollars worth of each other's goods. The year ended with the arrest of Huawei's chief financial officer (CFO) in Canada at US request, to the consternation of China. Long before Trump initiated the trade war, Huawei's activities were under scrutiny by US authorities, according to interviews with 10 people familiar with the Huawei probes and documents related to the investigations seen by Reuters.

Hugo Boss expects strong growth in Asia and online

(Reuters) German fashion house Hugo Boss said it expected its operating profit to rise faster than sales in 2019, predicting strong momentum in its online business and Asia. Known for its smart men's suits, Hugo Boss has introduced more casual and sportswear styles to appeal to a younger audience and invested heavily in its online offer after a bid to go upmarket backfired a few years ago. The company said it expected a high single-digit %age increase in operating profit for 2019 and a mid single-digit %age rise in currency-adjusted sales. "We are ensuring profitable growth in 2019 and beyond. Strong momentum in our own online business and in Asia will make a significant contribution this year," Chief Executive Mark Langer said in a statement. Investors are worried about slowing demand for luxury goods as the economy stalls in China, but Hugo Boss forecast "over proportionate growth" in the Asia-Pacific region. The company said it expected strong double-digit growth to continue in its online business, after it reached sales of more than 100 million euros in 2018 for the first time.

Saudis to weigh local bank tax hike to as much as 20%

(Bloomberg) Saudi Arabia is considering plans to increase an Islamic tax paid by local banks to as much as 20%, or double the current rate, according to people with knowledge of the matter, as the world's biggest oil exporter seeks to bolster alternative sources of revenue. The tax authority is in talks with lenders about raising the religious levy, known as Zakat, potentially bringing it in line with the 20% rate paid by foreign banks in the kingdom, the people said, asking not to be identified because the discussions are private. The talks are ongoing and the final rate could be lower, they said. Local lenders started paying Zakat at 10% of profit after deducting returns on government bonds from last year as part of a settlement with the authority. They used to pay at 2.5% of equity and the new rate was applied retrospectively for many years, in some cases stretching as far back as 2002. A spokesman for the General Authority of Zakat and Tax declined to comment.

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For further inquiries, feedback, and trading services:

Global Markets Division

Phone:

+961 1 960501

Email:

treasury@bankofbeirut.com.lb

Private Banking Department

Phone:

+961 1 960531/2/3

Email:

privatebanking@bankofbeirut.com.lb

Bank of Beirut Group

Lebanon
www.bankofbeirut.com

Australia
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