

MARKETS TODAY

Monday, May 06, 2019

MARKETS IN BRIEF

- Unexpectedly, Trump escalated trade tensions with China, sending global markets into turmoil.
- Asian stocks fell, led by Chinese stocks that dropped more than 6%. U.S. stocks futures were down 1.6% after ending last week with a positive note.
- Chinese yuan weakened 0.90% after dropping at some point around 1.3%, its worst in 3 years,
- Safe-haven yen rose hitting a 5-week high against the dollar.
- Australian dollar dipped below \$0.70 level touching a 4-month low. Traders awaited key events tomorrow: Retail Sales and Trade Data at 4:30 LT, and RBA Policy Decision at 7:30 LT.
- British pound eased on doubts that a deal could be reached between PM May and the Labour party. However, both sides continued their efforts to break the deadlock.
- Oil prices tumbled tracking global sentiment.
- Soybean prices hit their lowest level in over 7months, extending their decline into a seventh session.
- U.S. stocks had a great run on Friday helped by an upbeat jobs growth.

Is the trade deal dead?

China is considering delaying a trip by its top trade negotiators to Washington this week, according to Bloomberg sources, after Trump threatened the country with steeper tariffs over the pace of trade talks. Trump sharply escalated tensions with tweeted comments on Sunday that trade talks with China were proceeding "too slowly", and that he would raise tariffs on \$200 bn of Chinese goods to 25% on Friday from 10%. He also said he would target a further \$325 bn of Chinese goods with 25% tariffs "shortly". Whether the talks would proceed and how they would proceed are issues that are now being re-evaluated, a Chinese official told Reuters on condition of anonymity.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1193	-0.04%
GBP/\$	1.3122	-0.39%
AUD /\$	0.6989	-0.41%
\$/JPY	110.75	0.32%
\$/CAD	1.3486	-0.49%
Gold \$	1281.69	0.20%
WTI \$	60.57	-2.21%
BRENT \$	69.24	-2.27%
AMERICA		
DOW JONES	26504.95	0.75%
S&P 500	2945.64	0.96%
NASDAQ	8164.00	1.58%
EUROPE		
STXE 600	390.37	0.39%
CAC 40	5548.84	0.18%
DAX	12412.75	0.55%
ASIA PACIFIC		
S&P/ASX 200	6283.70	-0.82%
NIKKEI 225	22258.73	-
CSI 300 (China)	3675.87	-6.07%
MENA		
Saudi Arabia	9178.96	-1.69%
Dubai	2752.76	-0.21%
Qatar	10461.49	-0.18%
BONDS		
U.S. 10-year	2.5250	-0.0002
German Bund 10-yr	0.0250	-0.0001
AU 10-year	1.7430	-0.0005

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... PBOC giving a “modest” boost

China's central bank decided to cut the amount of cash small lenders must hold as reserves, adding liquidity as policy makers seek to put the economy on a firmer footing. The required reserve ratio for medium and small-sized banks that serve local companies or have less than 10 bn yuan (\$1.5 bn) of assets will be lowered to 8% from 11.5%, taking effect on May 15, the People's Bank of China said on its website Monday. The cut will release 280 bn yuan of long-term liquidity. The amount would be one of the smallest from any of the RRR cuts since January 2018.

May working with the Labour party

May's officials are drafting a new law in preparation for a Brexit deal between the gov't and the opposition Labour party that would break the deadlock. New clauses are being written into the Withdrawal Agreement Bill that would provide for a customs union-style arrangement guaranteeing there are no checks on goods crossing the UK-EU border. The move is an attempt to meet a key demand from Corbyn's Labour party. But it might still not be enough to persuade the opposition leader to sign up to a blueprint with the PM, when their teams meet again on Tuesday.

U.S. unemployment rate lowest since 1969

U.S. job growth surged in April and the unemployment rate dropped to 3.6%, the lowest since Dec 1969, pointing to sustained strength in economic activity. The Labor Dpt's employment report on Friday showed the greater-than-expected 263,000 new jobs created last month were spread across most industry sectors. Still, wage gains did not accelerate as expected, holding at a reading that is consistent with moderate inflation. Moreover, the decline in the unemployment rate was driven largely by the most people leaving the labor force in a year and a half.

BEIRUT S.E.	LAST	1D
SOLIDERE—A	5.65	3.10%
SOLIDERE—B	5.50	-4.68%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.70	-
BLOM BANK	8.50	-
BYBLOS BANK	1.23	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.55	-

FX & COMMODITIES

The safe-haven yen climbed and the yuan slid on Monday after Trump threatened to increase tariffs on China, sending riskier assets into a spin and slamming stock futures. Trump on Sunday increased pressure on China to reach a trade deal by announcing he will hike US tariffs on \$200 billion worth of Chinese goods this week and target hundreds of billions more soon. The WSJ reported sources saying Beijing might cancel talks with their US counterparts in Washington planned for Wednesday. Some losses were recouped when the South China Morning Post reported China Vice-Premier Liu He would travel to Washington on Thursday after a delay, rather than cancelling planned talks altogether. However, the SCMP later said no decision had been made on the trip and it might indeed be canceled, leaving the market guessing. Investors responded by bidding up the yen, which is considered a safe harbor in times of stress given Japan's status as the world's largest creditor and its huge hoard of assets abroad. The dollar eased to 110.75 yen on the WSJ report. Earlier it touched a 5-week trough at 110.28, after ending Friday around 111.12. The market was again thin as Japan remains on holiday, though China is back from its break. The euro hit its

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FX & COMMODITIES

lowest since January around 123.44 yen and was last at 123.96. The single currency was steady on the dollar at \$1.1193, while the dollar index was a fraction firmer at 97.579. The dollar climbed 1% on the Chinese yuan to 6.8038. The Australian dollar took a spill given the country's exposure to Chinese trade and lost around 0.6% at one stage to \$0.6960. It was last down at \$0.6989. The US dollar had already softened on Friday when jobs data beat expectations but a soft reading for wages meant the Fed could afford to stay patient on policy. The futures market on Monday moved to price in an even greater chance of a rate cut this year as Trump's tariff warnings was seen as a risk to the global economy and business sentiment. Futures imply a funds rate around 2.220% by December compared to the current effective rate of 2.40%.

The British pound weakened after senior Labour figures cast doubt on the prospect of a cross-party Brexit deal over the weekend, cooling expectations that PM Theresa May was nearing an agreement with opposition MPs. Sterling fell 0.39% to \$1.3122, after John McDonnell, Labour's shadow chancellor, said on Sunday that he no longer trusted the prime minister, and that she had "blown the confidentiality we had" and "jeopardized the negotiation". He added that Labour's challenge was negotiating with May when her premiership was winding down, and all her potential successors were "virtually threatening to tear up" any deal. "We're dealing with a very unstable administration." The currency had jumped 1.1% on Friday after Jeremy Corbyn, the leader of Britain's opposition Labour party, said parliament had to "get a deal done", raising hopes that May's government could pass a version of her Brexit deal with support from opposition MPs. The pound was also boosted last week after the Bank of England signalled on Thursday that it was still inclined to tighten monetary policy. A final round of negotiations between the government and Labour is due to begin on Tuesday.

Oil prices tumbled on Monday tracking global market sentiment. Within the oil industry, there are signs of a further rise in output from the US, where crude production has already surged by more than 2 million bpd since early 2018, to a record 12.3 million bpd. That has made the US the world's biggest producer ahead of Russia and Saudi Arabia. The number of rigs drilling for gas in the US fell by 3 to 183 in the week to May 3, while oil-directed drilling rigs rose by 2 to 807, data from oil services firm Baker Hughes showed on Friday.

Chicago soybean futures on Monday dropped to their lowest level in over seven months, extending their decline into a seventh session. That came as a lack of US corn planting due to delays in rain could fuel a shift to more soybean acreage despite sluggish export demand from top importer China. Focus was also on the intensifying trade dispute between Washington and Beijing.

ECONOMIC CALENDAR

CURRENCY - TIME (LT)	EVENT	FCAST	PRIOR
EUR—11:00	Eurozone Final Services PMI	52.5	52.5
EUR—11:30	Eurozone Sentix Investor Confidence	1.1	-0.3
EUR—12:00	Eurozone Retail Sales MoM	-0.10%	0.40%
CAD—20:45	Canada BpC Poloz speaks		

Tuesday: AU Retail Sales and Trade Balance, AU RBA Policy Decision, NZ Inflation Expectations, EU Economic Forecasts, Canada Ivey PMI

Wednesday: NZ RBNZ Policy Decision + Press Conference, China Trade Balance, ECB Policy Meeting Accounts

Thursday: China CPI, Canada Trade Balance, Fed Chair Powell speaks, US PPI, US Trade Balance

Friday: AU RBA Monetary Policy Statement, German Trade Balance, UK GDP and Manufacturing Production, Canada Jobs Report, US CPI

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CURRENCIES	LAST	1D	YTD
DXY	97.579	0.06%	1.46%
EUR/\$	1.1193	-0.04%	-2.39%
GBP/\$	1.3122	-0.39%	2.89%
AUD /\$	0.6989	-0.41%	-0.85%
NZD/\$	0.6625	-0.33%	-1.40%
\$/JPY	110.75	0.32%	-0.96%
\$/CAD	1.3486	-0.49%	1.12%
\$/CHF	1.0161	0.05%	-3.35%
\$/SEK	9.5707	-0.28%	-7.50%
\$/NOK	8.7446	-0.45%	-1.19%
\$/DKK	6.6698	-0.06%	-2.37%
\$/TRY	5.9916	-0.46%	-11.72%
EUR/GBP	0.8530	-0.33%	5.38%
EUR/JPY	123.96	0.40%	1.51%
EUR/CHF	1.1373	0.12%	-1.04%
COMMODITIES	LAST	1D	YTD
Gold Spot \$/Oz	1281.69	0.20%	-0.06%
Silver Spot \$/Oz	14.87	-0.50%	-4.06%
Platinum Spot \$/Oz	861.26	-1.22%	8.25%
Palladium Spot \$/Oz	1350.81	-1.47%	7.06%
COPPER \$/lb	279.15	-0.98%	5.70%
WTI \$/bbl	60.57	-2.21%	33.38%
BRENT \$/bbl	69.24	-2.27%	28.70%

EQUITIES & BONDS

Global financial markets reeled on Monday after Trump unexpectedly jacked up pressure on China to reach a trade deal in the midst of negotiations, saying he would hike US tariffs on Chinese goods this week. Equity markets, which have been largely expecting the two sides to reach a trade agreement soon, fell sharply as further talks to end their bruising trade war were thrown into doubt. MSCI's broadest index of Asia-Pacific shares outside Japan was down 1.9% as markets across the region fell deep into the red. Chinese blue-chips lost more than 6% at one point in the morning session, having closed higher before a three-day national holiday amid expectations that pressures on China's economy were easing. They later clawed back some losses, and finished the morning session down 5.5%. The drop in Chinese shares came despite a move on Monday by China's central bank to cut reserve requirements for small banks to help boost lending to small and private firms. Australian shares were off 0.82%. Japanese financial markets remain closed until Tuesday for a national holiday, but Nikkei 225 futures were down 1.9% at 22,075. E-Mini futures for the S&P 500 slid 1.6%, erasing gains on Friday after the US payroll data had helped to lift Wall Street.

The flight from riskier assets boosted interest in safe havens, pushing U.S. Treasury futures up 16 ticks. Data from CME Group showed the market now sees a nearly 56% chance of a Federal Reserve rate cut by the end of the year. Chinese 10-year treasury futures also jumped, with the most-traded contract, for June delivery rising as much as 0.5%. They were last up 0.27% at 96.855.

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EQUITIES & BONDS

US stocks rose in a broad-based rally on Friday as stronger-than-expected job growth in April coupled with muted wage gains left investors upbeat about the outlook for the economy and interest rates. The Nasdaq registered a record high close, while the S&P 500 ended just shy of a record high finish. The Labor Department said employers added 263,000 jobs in April, which blew past expectations, and the unemployment rate dropped to 3.6%, the lowest level since December 1969. Average hourly earnings came in just shy of expectations, indicating muted inflationary pressure. The data supports the Fed's patient stance toward raising interest rates, which is a positive for stocks. Boosting the S&P 500 and the Nasdaq, Amazon.com Inc rose 3.2%, after CNBC reported that Warren Buffett's Berkshire Hathaway Inc has bought shares of the internet retailing giant for the first time. The consumer discretionary sector rose 1.5%, leading a rally among the 11 major S&P sectors. For the week, the S&P 500 and Nasdaq were up 0.2% while the Dow slipped 0.2%. With nearly 400 S&P 500 companies having reported quarterly results so far, three-quarters have topped profit estimates, according to Refinitiv data. The upbeat reports have turned around the S&P 500 earnings estimate for Q1 to a rise of almost 1% compared with the 2% decline projected at the start of April. Newell Brand Inc shares jumped 13.5% after the maker of Rubbermaid and other consumer goods exceeded Wall Street expectations for quarterly adjusted profit as it benefited from cost savings and higher pricing. Network gear-maker Arista Networks Inc tumbled 10.4% after it forecast weak current-quarter revenue, while Activision Blizzard Inc fell 4.8% after the videogame maker forecast current-quarter profit below expectations as it puts more money into its franchises to battle competition.

Gulf stock markets reversed earlier gains and closed in negative territory on Sunday, hit by profit-taking and disappointing quarterly results from some companies, with trading thin ahead of Ramadan. The Saudi index was the worst hit in the Gulf, losing 1.7%, pulled down by heavyweight names in the banking and petrochemical sectors.

COMPANY NEWS HEADLINES

- Warren Buffett's Berkshire Hathaway Inc on Saturday said gains in its stock investments fueled a big Q1 profit, while improved results from its Geico auto insurer and BNSF railroad units boosted operating results.
- US trade officials rejected Tesla bid for relief from Trump's 25% tariffs on the Chinese-made Autopilot "brain" of its Model 3 and other electric vehicles, one of more than 1,000 product denials linked to China's industrial development plans.
- Japanese trading house Mitsubishi and MUFG Bank plan to rescue plant engineering company Chiyoda with a \$1.4 bn lifeline, betting on a turnaround fueled by greater LNG demand, Nikkei newspaper reported on Monday.
- British drugmaker Vectura Group Plc said on Saturday that it won a patent infringement litigation case against GlaxoSmithKline Plc in the US and has been awarded \$89.7 million in damages.
- Tyson Foods Inc significantly expanded a recall of frozen, ready-to-eat chicken strips to close to 12 million pounds (5.4 million kg) over contamination concerns, the US Department of Agriculture said on Saturday.
- Toby Rice, the co-founder of Rice Energy, which was acquired by EQT Corp in 2017, said in a statement on Sunday he would drop his lawsuit against EQT after the US oil and gas producer said it was not seeking to manipulate the outcome of his board challenge.
- Venezuela's state-run oil company PDVSA said on Friday it would install 20 generators to make a crude project partly owned by Chevron "independent" of the national grid, after a wave of blackouts crippled crude production in the OPEC nation.
- A federal judge in San Francisco on Friday approved a \$307.5 million civil settlement for about 100,000 US owners of Fiat Chrysler diesel vehicles that the gov't said had illegal software that allowed them to emit excess emissions.
- Dutch chip equipment maker ASML Holding NV said on Saturday a US court had issued its final judgment in favour of ASML in an intellectual property theft case against US software maker Xtal.

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AMERICA	LAST	1D	YTD
DOW JONES	26504.95	0.75%	13.62%
S&P 500	2945.64	0.96%	17.50%
NASDAQ	8164.00	1.58%	23.04%
S&P/TSX	16494.43	0.51%	15.16%
EUROPE	LAST	1D	YTD
STXE 600	390.37	0.39%	15.61%
FTSE 100	7380.64	0.40%	9.70%
CAC 40	5548.84	0.18%	17.29%
DAX	12412.75	0.55%	17.56%
ASIA PACIFIC	LAST	1D	YTD
S&P/ASX 200	6283.70	-0.82%	11.29%
NIKKEI 225	22258.73	-	11.21%
TOPIX	1617.93	-	8.29%
CSI 300 (China)	3675.87	-6.07%	22.10%
MENA	LAST	1D	YTD
Saudi Arabia	9178.96	-1.69%	17.28%
Abu Dhabi	5226.46	-0.31%	6.34%
Dubai	2752.76	-0.21%	8.82%
Qatar	10461.49	-0.18%	1.58%
10-YEAR BONDS	LAST	1D	YTD
U.S.	2.5250	-0.0164	-0.1592
Germany	0.0250	-0.0050	-0.2170
U.K.	1.2190	0.0320	-0.0580
Australia	1.7430	-0.0470	-0.5750

TOP SELECTED NEWS

China April services sector expands further on strong export sales: Caixin PMI

(Reuters) Activity in China's services sector further improved in April, with export sales rising at a record pace, a private business survey showed on Monday, although the longer-term outlook for new orders stayed subdued due to global economic uncertainties. The Caixin/Markit services purchasing managers' index (PMI) climbed to 54.5, the highest since January 2018 and slightly up from 54.4 in March. The 50-mark separates growth from contraction. Export orders increased the most since the survey began measuring this in September 2014. While the growth contrasts with a slight slowdown suggested by official data last week, both readings indicated China's services sector remained firmly in expansionary territory. The strength in services, which account for more than half of China's economy, would help to counter any volatility in the country's manufacturing sector, which is still searching for firm footing.

Race to replace Draghi spurs ECB calls for Fed-style rethink

(Bloomberg) The race to succeed Mario Draghi could end up producing not only a new European Central Bank president, but even a revamped mandate. That's a potential outcome from a review of the institution's strategy called for by Olli Rehn, a contender for the job who is willing to shake things up in his attempt to stand out from the



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TOP SELECTED NEWS

crowd of candidates. The Bank of Finland Governor wants a rethink of the ECB's master plan for ensuring price stability, at a time when no amount of stimulus seems enough to boost inflation. His idea is short on specifics but has raised his profile in a field of hopefuls that includes the heads of the German and French central banks, a serving ECB board member and even Rehn's own predecessor. It could also backfire though, by splitting ECB policy makers and alarming some of the political leaders whose job it is to pick the next president this summer.

Disney to sell Fox regional sports networks to Sinclair for \$9.6 billion

(Reuters) Walt Disney Co said on Friday it would sell its interests in 21 regional sports networks and Fox College Sports to Sinclair Broadcast Group Inc for \$9.6 billion, a deal that clears the way for its purchase of Twenty-First Century Fox Inc's film and television assets. The deal will help Sinclair, the largest US broadcast station owner, add channels such as Fox Sports Detroit and Fox Sports Florida to its existing sports business that includes Marquee Sports Network and Ring of Honor Wrestling. Shares of Sinclair, whose bid for Tribune Media Co collapsed last year following opposition from the Federal Communications Commission, were trading up 14.6% at \$51.50 in after-hours trading.

Occidental tweaks \$38 billion Anadarko bid to remove shareholder vote

(Reuters) Occidental Petroleum increased the cash component of its \$38 billion bid to acquire Anadarko Petroleum Corp on Sunday, removing a requirement for any deal to receive the approval of Occidental's shareholders. The move means Occidental shareholders who oppose the bid, including T Rowe Price, will not get an opportunity to vote it down. It adds more certainty to the offer for Anadarko, but also risks the ire of billionaire investor Carl Icahn, who sources have said has been amassing a stake in Occidental to challenge its Anadarko offer.

Total enters \$8.8 billion deal with Occidental for Anadarko's Africa assets

(Reuters) French energy major Total said on Sunday it had reached a binding agreement with Occidental to acquire Anadarko assets in Algeria, Ghana, Mozambique and South Africa for a consideration of \$8.8 billion. The firm said the transaction was contingent upon Occidental entering into and completing its proposed acquisition of Anadarko and approval of relevant authorities. The deal is expected to close in 2020.

Boeing did not disclose 737 MAX alert issue to FAA for 13 months

(Reuters) Boeing Co did not tell US regulators for more than a year that it inadvertently made an alarm alerting pilots to a mismatch of flight data optional on the 737 MAX, instead of standard as on earlier 737s, but insisted on Sunday the missing display represented no safety risk. US plane-maker has been trying for weeks to dispel suggestions that it made airlines pay for safety features after it emerged that an alert designed to show discrepancies in Angle of Attack readings from two sensors was optional on the 737 MAX.

Siemens weighs carving out its Gas and Power unit - sources

(Reuters) German industrial conglomerate Siemens is weighing options for its Gas and Power unit which caters to the oil and gas industry as well as to power generators and distributors, two people close to the matter said. Siemens is considering carving out all or part of the business to prepare it for a potential stock market listing or a merger with a peer, the people said. They added that the company's supervisory board may decide on a potential carve-out at a Tuesday meeting and could present the plans at Siemens' capital markets day on Wednesday.

Lehman's London ghost office nears wind-down after 12 years

(Bloomberg) Lehman Brothers is finally leaving Canary Wharf, almost a dozen years after the Wall Street giant's collapse. The bank's European arm, which has been in the hands of administrators since September 2008, now takes up just a corner of the 23rd floor of Citigroup Inc.'s tower on Canada Square in London's eastern financial district. This is where administrators from PwC pick over the last few claims from creditors, and the accountants have given notice that they'll leave the office by June 2020. The departure is a "significant mark" in the process of finally wrapping up Lehman's legacy, Russell Downs, PwC's joint administrator, said in an interview.

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