

# GLOBAL MARKETS

Thursday, January 10, 2019

## Markets in brief

- Traders turned cautious today as U.S.-China talks ended without a concrete outcome.
- Asian stocks were mixed as markets awaited more news.
- U.S. dollar continued to trade under pressure from a dovish Fed minutes. Today, Fed Chair Powell will be speaking at 19:45 LT.
- Commodity currencies benefited from recent market optimism. Australian dollar was helped by rising iron ore prices. It was pressured earlier by disappointing Chinese inflation data.
- The yuan strengthened, breaching the key 6.8 per dollar level for the first time since August in both onshore and offshore trade, further boosting appetite for riskier assets.
- Oil prices dropped today after yesterday's 5% surge.
- U.S. stocks rose yesterday for their 4th consecutive session, helped by trade-sensitive equities.

## Fed open to change

Federal Reserve policymakers have indicated they may be open to tweaking a longstanding plan to shrink the central bank's balance sheet, including by shedding housing-backed bonds earlier than anticipated or keeping a bigger-than-expected portfolio of assets. Those were among a range of options discussed at the Fed's December meeting, minutes released on Wednesday showed. The discussion will continue at future meetings, the minutes said.

## U.S.-China trade talks remaining positive

Trade talks between China and the United States this week were extensive, and helped establish a foundation for the resolution of each others' concerns, China's commerce ministry said on Thursday, but gave no details on the issues at stake. The 3-day talks in Beijing that wrapped up on Wednesday were the first face-to-face negotiations since Trump and his Chinese counterpart Xi met in December and agreed on a 90-day truce in a trade war that has disrupted the flow of hundreds of billions of dollars of goods.

## U.S. government shutdown to persist

The U.S. House of Representatives on Wednesday passed legislation to end a partial shutdown of the Treasury Department and some other agencies, but without any money for President Donald Trump's border wall. By a vote of 240-188 along mostly partisan lines, the House passed the bill and sent it to the Republican-controlled Senate as part of Democrats' latest strategy to end partial government shutdowns at many federal agencies that began on Dec. 22. Senate Majority Leader Mitch McConnell has not indicated a willingness to bring the bill up for a vote.

## Brexit Plan B ... Corbyn to demand elections

Theresa May is openly contemplating a Brexit "Plan B" amid growing signs that the British Parliament will reject the deal she's reached with the EU and try to take charge of what happens next. On Wednesday, the prime minister suffered her second defeat in two days in the House of Commons, losing control of the timetable for setting out the next steps if -- as expected -- Parliament votes down her Brexit deal on Jan. 15. Labour Leader Jeremy Corbyn will demand today that May call a general election if her Brexit deal is shot down in Parliament next week, according to a transcript of his speech.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1556	0.11%
GBP/\$	1.2782	-0.05%
AUD /\$	0.7190	0.28%
NZD/\$	0.6789	0.01%
\$/JPY	107.81	0.33%
\$/CAD	1.3229	-0.15%
\$/CHF	0.9730	0.14%
Gold \$	1295.50	0.15%
Silver \$	15.74	-0.10%
Platinum \$	826.30	0.06%
WTI \$	51.75	-1.17%
BRENT \$	60.85	-0.96%
AMERICA		
DOW JONES	23879.12	0.39%
S&P 500	2584.96	0.41%
NASDAQ	6957.08	0.87%
EUROPE		
STXE 600	347.70	0.53%
CAC 40	4813.58	0.84%
DAX	10893.32	0.83%
ASIA PACIFIC		
S&P/ASX 200	5795.27	0.29%
NIKKEI 225	20163.80	-1.29%
CSI 300 (China)	3071.04	-0.24%
MENA		
Saudi Arabia	8146.68	1.11%
Dubai	2539.75	0.44%
Qatar	10535.13	0.73%
BONDS		
U.S. 10-year	2.6832	-0.0003
German Bund 10-year	0.2790	0.0005
AU 10-year	2.3170	-0.0001
BEIRUT S.E.		
SOLIDERE - A	6.84	-0.44%
SOLIDERE - B	6.81	0.89%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.90	-
BLOM BANK	9.45	2.16%
BYBLOS BANK	1.36	-0.73%
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.57	-

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## FX & COMMODITIES

**The US dollar weakened versus major peers such as the euro and yen on Thursday due to growing expectations the Federal Reserve will pause its rate tightening cycle this year.** Minutes from the Fed's Dec. 18-19 meeting revealed that several policymakers were in favor of the US central bank keeping rates steady this year. Broader market sentiment turned slightly cautious in Asian trade as markets waited for concrete evidence that progress is being made in U.S.-China trade talks. "While there was agreement on less thorny issues such as agriculture and energy, US demands for verification and enforceable targets on intellectual-property rights, transfer of technologies and non-tariff barriers may not be that easily addressed," the note said. They expect room for volatility in the lead up to the March 1 deadline where negotiations on these issues need to be concluded. But most traders still expect market sentiment to remain positive in the medium term on expectations the Fed will not raise rates in 2019 as well as a potential trade deal in coming months between the world's two largest economies. The dollar index was steady at 95.11, after losing 0.7% on Wednesday. It has weakened in four out of the last five sessions as traders wager that US interest rates will stay steady in 2019. The index gained 4.3% in 2018 as the Fed hiked rates four times on the back of a strong domestic economy, falling unemployment and rising wage pressures.

**The euro gained marginally on the dollar. Economic data in the Eurozone has remained consistently weaker than forecasts over the last few months, especially in France and Germany, the Eurozone's economic powerhouses.** The European Central Bank is widely expected to remain accommodative in 2019, which should keep a lid on the single currency.

**British pound was slightly lower. Brexit woes are most likely to dominate sentiment towards sterling.** British Prime Minister Theresa May must win a vote in parliament to get her Brexit deal approved or risk seeing Britain's exit from the European Union descend into chaos. The vote is now due to take place on Jan. 15. May's chances of winning the vote look slim as the DUP, the small Northern Irish party that usually props up her government, is opposed to the deal.

**Commodity currencies such as the Canadian dollar have been the biggest beneficiaries of improving risk sentiment this week.** The loonie fetched C\$1.3230, hovering close to its highest level in more than a month, thanks to a sharp rebound in oil prices over the last couple of weeks. Also supporting the loonie was the Bank of Canada's assessment that further rate hikes may be necessary.

**Australian dollar gains for a second day after industry data showed iron ore exports improved last month.** Aussie fell earlier following slower-than-expected China inflation data.

**Oil prices fell by about 1% on Thursday on swelling U.S. supply and amid a cautious reaction to trade talks between the United States and China, the world's two largest oil consumers, that finished without concrete details to ending their dispute.** Both oil benchmarks rose by around 5% the previous day as financial markets around the world surged.

	LAST	1D	YTD
<b>CURRENCIES</b>			
DXY	95.114	-0.11%	-1.10%
EUR/\$	1.1556	0.11%	0.78%
GBP/\$	1.2782	-0.05%	0.22%
AUD /\$	0.7190	0.28%	2.00%
NZD/\$	0.6789	0.01%	1.04%
\$/JPY	107.81	0.33%	1.74%
\$/CAD	1.3229	-0.15%	3.08%
\$/CHF	0.9730	0.14%	0.94%
\$/SEK	8.8710	-0.01%	-0.20%
\$/NOK	8.4670	0.02%	2.05%
\$/DKK	6.4614	0.11%	0.77%
\$/TRY	5.4814	-0.08%	-3.50%
EUR/GBP	0.9040	-0.15%	-0.56%
EUR/JPY	124.58	0.22%	1.00%
EUR/CHF	1.1243	0.04%	0.11%
<b>COMMODITIES</b>			
Gold Spot \$/Oz	1295.50	0.15%	1.01%
Silver Spot \$/Oz	15.74	-0.10%	1.57%
Platinum Spot \$/Oz	826.30	0.06%	3.85%
Palladium Spot \$/Oz	1316.61	-0.92%	4.35%
COPPER \$/lb	266.55	0.32%	1.31%
WTI \$/bbl	51.75	-1.17%	13.96%
BRENT \$/bbl	60.85	-0.96%	13.10%

### In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	14:30	ECB Policy Meeting Accounts		
USD	19:45	Fed Chair Powell speaks		

**Friday:** Japan Current Account, AU Retail Sales, UK GDP, UK Manufacturing Production, US Inflation

Thursday, January 10, 2019

## STOCKS & BONDS

**Asian shares edged up on Thursday as stimulus expectations and a rise in the yuan helped Chinese equities erase early losses, while markets awaited more news on US-China trade talks amid hopes that an all-out trade war can be averted.** MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.3%, hovering at a near four-week high. China's blue-chip CSI 300 and Hong Kong's Hang Seng gained 0.3% and 0.1%, respectively. Chinese shares recouped earlier losses as weak inflation data raised the prospect of further government stimulus. Australian shares added 0.3%, but Japan's Nikkei closed 1.3% lower.

**US stocks rallied for a fourth session on Wednesday, propelled by Apple, chipmakers and other trade-sensitive stocks after signs of progress in trade talks between the US and China.** The benchmark S&P 500, now in its longest daily winning streak in nearly four months, is up about 10% from a 20-month low it touched around Christmas, lifted by hopes for a deal between the world's two largest economies, which eased some worries over the impact of the trade spat on global growth. Market participants were also encouraged by strong US jobs data and recent indications the US Fed is in no rush to raise interest rates. The Fed released minutes showing a range of policymakers said in December they could be patient about future interest rate increases and that a few did not support the central bank's rate increase that month. China pledged to purchase "a substantial amount" of agricultural, energy and manufactured goods and services from the US, the US Trade Representative's office said, as talks wrapped up in Beijing. The S&P technology index rose 1.50%, with Apple Inc up 1.70% despite a Nikkei report that the company had reduced planned production for its three new iPhone models for the January-March quarter. The company's shares tumbled about 10% last week after it warned on holiday quarter sales. Its suppliers, which largely include chipmakers, took another beating on Tuesday after Samsung Electronics flagged weak chip demand. The Philadelphia Semiconductor index gained 2.52%. Chipmakers are among the US multinationals with the highest revenue exposure to China. Shares of Boeing Co, which also has a large exposure to China, climbed 0.97%, with the S&P industrial index gaining 0.63%. The energy index led other sectors with a 1.50% jump, helped by oil prices at their highest levels in nearly a month. The CBOE Volatility index, often referred to as an investor fear gauge, dropped half-a-point to a one-month low of 19.85. Financial stocks rose 0.52%, with Citigroup climbing 2%. Echoing the Fed minutes released on Wednesday, many policymakers said they could wait on any further interest rate hikes until they had a better handle on whether growing risks will undercut an otherwise solid US economic outlook. For the S&P, Wednesday's advance marked the benchmark index's longest streak of gains since mid-September, just before it started retreating from its record high. Shares in Constellation Brands Inc sank 12.42%, dragging down the consumer staples index, after the Corona brewer cut its fiscal 2019 profit outlook.

**Gulf stock markets were mostly higher yesterday tracking global equities.** Saudi index climbed to a 5-month high. The Saudi index rose 1.1%, helped by bank and petrochemical stocks. Market heavyweight Saudi Basic Industries added 1.5% and Al Rajhi Bank was up 1.4%.

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S&P/TSX	14804.73	1.37%	3.36%
<b>EUROPE</b>			
STXE 600	347.70	0.53%	2.98%
FTSE 100	6906.63	0.66%	2.65%
CAC 40	4813.58	0.84%	1.75%
DAX	10893.32	0.83%	3.17%
<b>ASIA PACIFIC</b>			
S&P/ASX 200	5795.27	0.29%	2.64%
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TOPIX	1522.01	-0.85%	1.87%
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Saudi Arabia	8146.68	1.11%	4.09%
Abu Dhabi	4953.25	0.53%	0.54%
Dubai	2539.75	0.44%	0.25%
Qatar	10535.13	0.73%	2.12%
Oman	4310.76	0.00%	-0.18%
Egypt	13365.58	-0.28%	2.53%
Kuwait	5386.95	-0.25%	2.65%
Bahrain	1338.27	0.45%	0.08%
<b>10-YEAR BONDS</b>			
U.S.	2.6832	-0.0268	-0.0010
Germany	0.2790	0.0530	0.0370
U.K.	1.2610	-0.0130	-0.0160
France	0.7140	-0.0190	0.0040
Australia	2.3170	-0.0100	-0.0010
Japan	0.0250	-0.0070	0.0220

## Major Company News

- Sears Holdings CEO Lampert submitted a revised roughly \$5 bn takeover bid for the company on Wednesday boosting the chances that US department store operator will escape liquidation. (Reuters)
- Qualcomm Inc has responded to comments made by Apple CEO Cook in an interview, in which he said there had been no recent settlement talks between the iPhone maker and chip supplier in their global legal battle, calling Cook's remarks "misleading."
- Amazon.com founder and CEO Jeff Bezos, the world's richest person, and his wife Mackenzie Bezos are divorcing after 25 years of marriage, the couple said on Twitter on Wednesday.
- Lennar Corp said on Wednesday it was seeing an improvement in home sales in its new fiscal year as mortgage rates start to ease and posted earnings ahead of expectation.
- The Justice Department has said in a court filing that a partial government shutdown could delay its response to comments on pharmacy chain CVS Health Corp's purchase of health insurer Aetna, a necessary step in a court giving final approval to the deal.
- Dutch chipmaker NXP Semiconductors NV said on Tuesday it will team up with French chip firm Kalray SA to craft computers for self-driving cars, in an effort they hope will ease the path to winning future approval of their computers from safety regulators.
- Alibaba has acquired German data analysis firm Data Artisans, the startup said, in a deal reported to be worth around 90 million euros.
- Volkswagen and Ford will unveil a deeper alliance next week that goes beyond cooperating in commercial vehicles in a move meant to save billions of dollars as they develop new technologies (Reuters)
- Toyota said Wednesday it is recalling another 1.7 million vehicles worldwide for potentially faulty Takata air bag inflators as part of a multi-year industry recall campaign announced in 2016.



Thursday, January 10, 2019

## TOP SELECTED NEWS

### BoE will be 'prudent not passive' after Brexit: Carney

(Reuters) Bank of England policymakers will be "prudent not passive" after Britain leaves the EU, keeping a close eye on exchange rate moves and other factors affecting inflation, Governor Mark Carney said on Wednesday. Britain is due to quit the EU on March 29, though Prime Minister Theresa May is struggling to find parliamentary support for the transition deal she agreed with the bloc in November, without which there is a risk of chaos at Britain's borders. As parliament resumed debating May's plans on Wednesday after a holiday pause, Carney warned the pound risked a further decline if markets judged economic ties between Britain and the EU were being weakened. "The nature of that partnership is currently the subject of feverish debate in parliament and the prospects for sterling will depend heavily on how Brexit actually progresses," he said in his first public comments of 2019. The BoE and Britain's banks are ready for whatever form Brexit takes, Carney said in an online discussion that focused on the future of cash and the BoE's views on crypto-currencies. "From a monetary policy perspective, the Monetary Policy Committee is well-prepared for whichever path the economy takes. We have the tools we need. We will be prudent not passive," he said.

### EU trade chief says US talks will not include agriculture

(Reuters) The EU and US have not yet agreed on the scope of trade negotiations, but the bloc will not include agriculture in the talks, its trade commissioner said on Wednesday. Trump has sought better terms of trade with the EU, as well as China, Japan, Canada and Mexico. EU negotiators said they would discuss industrial goods including autos, but not agricultural products - a blow to American farmers, who would like to boost access to the lucrative European market. "We have made very clear agriculture will not be included," Cecilia Malmström told a group of reporters on Wednesday, though she said the two sides had not yet agreed on that issue. Malmström was speaking after meeting with US Trade Representative Robert Lighthizer and ahead of a meeting with US and Japanese leaders to discuss WTO reform this week. USTR notified lawmakers in October of its plans to pursue the trade talks with the EU. In separate remarks to reporters on Wednesday, Republican Senator Chuck Grassley from Iowa said agriculture would need to be a part of the agreement to have support from lawmakers. Iowa is a top corn producing state.

### German industrial firms see 43% chance of hard Brexit: Ifo

(Reuters) German industrial firms see a 43% chance of a hard Brexit happening on average, a survey of companies in Europe's largest economy by the Ifo institute showed on Wednesday. The poll of around 1,300 firms found that 40% of businesses did not expect their revenues to be affected by a hard Brexit. A hard Brexit is generally understood to be an abrupt exit by Britain from the EU without measures in place to safeguard the British and EU economies.

### Germany seeks to bolster cyber defenses

(Reuters) German officials are racing to bolster cyber security after a far-reaching data breach by a 20-year-old student laid bare the vulnerability of Europe's largest economy ahead of a critical European Parliament election in May. Officials say they

are anxious to close security gaps and raise awareness ahead of the upcoming election, where voters from across the EU will choose lawmakers for the parliament, amid concerns that foreign powers or right-wing forces could seek to manipulate the election. German authorities have said an unnamed student who lived with his parents had confessed to one of Germany's biggest data breaches, that involved leaking personal data and documents of about 1,000 people, including Chancellor Merkel and other politicians and high-profile individuals.

### Renault's CEO moved tax domicile to Netherlands in 2012

(Reuters) Japanese prosecutors plan to indict former Nissan Motor Co Ltd Chairman Carlos Ghosn on two more charges of financial misconduct on Friday, a person with knowledge of the issue said, bringing the total number to three. Ghosn, who has been detained since his arrest in November, is likely to be formally charged with aggravated breach of trust for temporarily transferring personal investment losses to Nissan in 2008, as well as for understating his compensation for three years through 2018. The charges, which have been widely expected, add to an earlier charge of under-reporting his income by around half over the five years through March 2015. At a court appearance this week, Ghosn said all accusations against him were "meritless" and "unsubstantiated". Nissan also faces an indictment over the latest compensation reporting issue, said the person, who spoke on condition of anonymity due to the sensitivity of the issue.

### Deutsche ordered to re-examine risky customers by June

(Reuters) Germany's financial markets watchdog is requiring Deutsche Bank to re-examine the files of about 20,000 risky clients by the end of June as part of its "know your customer" process, sources said on Wednesday. Deutsche has come under fire for weaknesses in its procedures in identifying clients to prevent money laundering and the financing of extremists. The June deadline was imposed when watchdog BaFin announced in September that it had ordered the lender to do more to prevent money laundering, without giving details. It said it had appointed a third party, KPMG, to assess progress. Handelsblatt first reported the requirement earlier on Wednesday. Deutsche declined to comment. The customers will be re-evaluated under the terms of a new money laundering directive. The bank will have another year or more to examine the status of less risky customers.

### Jaguar Land Rover to make 'substantial' job cuts: source

(Reuters) Britain's biggest carmaker Jaguar Land Rover (JLR) is set to announce "substantial" job cuts in the thousands, a source told Reuters, as the company faces double-digit drops in demand in China and a slump in sales for diesel in Europe. JLR swung to a first-half loss of 354-million pounds (\$450 million) and had already in 2018 cut around 1,000 roles in Britain, shut its Solihull plant for two weeks and announced a three-day week at its Castle Bromwich site. The Tata Motors-owned company has unveiled plans to cut costs and improve cash flows by 2.5 billion pounds including "reducing employment costs and employment levels." Those cuts will be "substantial" and run into the thousands, the source told Reuters.



Thursday, January 10, 2019

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