

GLOBAL MARKETS

Friday, January 18, 2019

Markets in brief

- Asian stocks rose across the board as a report of progress in U.S.-China trade talks stirred hopes of a deal in their tariff dispute and supported risk sentiment.
- U.S. stocks rallied yesterday following the report, but pared some gains after a Treasury spokesperson told CNBC that Mnuchin had not made any such recommendations.
- British pound managed to hold onto most of its overnight gains against the euro as traders wagered on a second referendum vote on Britain's EU membership.
- Euro steadied as investors eyed ECB policy meeting next week in addition to several economic data.
- Palladium held near \$1,400 an ounce after surging to record levels in the previous session on tight supplies and robust demand.
- Gold stood firm amid a partial U.S. government shutdown.
- Oil prices jumped as OPEC report eased fear of prolonged oversupply.

Mixed signals over China-U.S. trade policy

U.S. Treasury Secretary Steven Mnuchin discussed lifting some or all tariffs imposed on Chinese imports and suggested offering a tariff rollback during trade discussions scheduled for Jan. 30, the Wall Street Journal reported on Thursday, citing people familiar with the internal deliberations. But Trade Representative Robert Lighthizer has resisted the idea, and the proposal had not yet been introduced to President Donald Trump, according to the Journal. Shares got a boost and then partially surrendered gains after a Treasury official denied the whole thing and said neither Mnuchin nor Lighthizer has offered recommendations on the talks.

Trump cancelling several trips because of shutdown

Trump canceled the U.S. delegation's trip to the global economic summit in Davos hours after he denied House Speaker Nancy Pelosi a plane to visit American troops in Afghanistan as the shutdown continued. There were no breakthroughs after a meeting with Mitch McConnell, Mike Pence and Jared Kushner, a person familiar said. The Senate canceled next week's recess but there will be no votes.

Davos under threat?

British Prime Minister Theresa May became the latest leader to cancel a trip to next week's annual meeting of the World Economic Forum in Davos, forced to stay home by the need to address domestic political drama. Skipping the conference deprives the leaders of a chance to showcase their policies before the world's most influential business executives and investors. Some leaders are still making the trip, including Japanese Prime Minister Shinzo Abe, German Chancellor Angela Merkel, Italian Prime Minister Giuseppe Conte and Brazilian President Jair Bolsonaro.

Brexit battle hardening

Theresa May continues to work on a Brexit compromise ahead of the Jan. 21 deadline for Plan B. She said it's not within the government's power to rule out a no-deal divorce, meaning Labour's conditions won't be met. Among her allies, the DUP would be open to a Norway-style deal keeping the whole of Britain in an EU customs union if it removed the border backstop threat, The Times reported. The PM promised pro-Brexit Tories she won't agree to such a step.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1396	0.06%
GBP/\$	1.2965	-0.16%
AUD /\$	0.7192	-0.01%
NZD/\$	0.6768	0.07%
\$/JPY	109.39	-0.12%
\$/CAD	1.3268	0.08%
\$/CHF	0.9940	0.02%
Gold \$	1290.88	-0.09%
Silver \$	15.54	0.08%
Platinum \$	814.30	0.49%
WTI \$	52.61	1.04%
BRENT \$	61.75	0.93%
AMERICA		
DOW JONES	24370.10	0.67%
S&P 500	2635.96	0.76%
NASDAQ	7084.46	0.71%
EUROPE		
STXE 600	350.73	0.04%
CAC 40	4794.37	-0.34%
DAX	10918.62	-0.12%
ASIA PACIFIC		
S&P/ASX 200	5879.59	0.50%
NIKKEI 225	20666.07	1.29%
CSI 300 (China)	3168.17	1.82%
MENA		
Saudi Arabia	8448.02	0.49%
Dubai	2516.81	0.64%
Qatar	10787.75	0.24%
BONDS		
U.S. 10-year	2.7518	0.0000
German Bund 10-year	0.2530	0.0001
AU 10-year	2.3150	0.0003
BEIRUT S.E.		
SOLIDERE - A	6.14	-5.39%
SOLIDERE - B	6.28	-3.38%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.90	-
BLOM BANK	9.25	-
BYBLOS BANK	1.35	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.57	-

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FX & COMMODITIES

The US dollar was firm against the yen on Friday as growing optimism of progress in Sino-US trade talks supported broader appetite for risk. A Wall Street Journal report on Thursday that US Treasury Secretary Steven Mnuchin had considered easing tariff imposed on Chinese imports lifted sentiment though a Treasury spokesman later denied the report. Against the yen, the dollar tacked on 0.12% to 109.39 yen for its 4th-day of gains against the Japanese currency and just off a 2-week high of 109.40 touched overnight. The dollar index .DXY, which measures the greenback against six major peers, was largely flat at 96.084 after briefly rising to a near 2-week high of 96.264 during the previous session. The index, which has been hobbled since late last year by the Fed's cautious stance on delivering further rate hikes, has managed to rebound about 1% from a 3-month low of 95.029 touched just over a week ago. Chinese Vice Premier Liu He will visit the US on Jan. 30 and 31 for the latest round of trade talks aimed at resolving the trade standoff between the world's two largest economies.

British pound was steady after rising overnight on hopes of a second referendum on Britain's membership in the EU following Prime Minister Theresa May's crushing defeat in parliament of her Brexit deal. While May has repeatedly rejected a second referendum, a vocal campaign in favor of holding a new vote has drawn the support of some lawmakers. Sterling was last down about 0.23% at 87.90 pence, trading close to a 2-month peak of 87.60 scaled overnight. It edged down to \$1.2965 but was not far off a 2-month high of \$1.3001.

Euro continued to trade under pressure. Over the next week, analysts said they expect focus will move to Thursday's release of January business activity figures for the euro zone, including French data, that will offer some clues on the health of the economic bloc. French business activity plunged unexpectedly into contraction last month, retreating at the fastest pace in over four years in the face of violent protests against the government of President Emmanuel Macron. The single currency was up less than a tenth of a%, last changing hands at \$1.1396. Analysts expected the dollar to remain relatively strong versus the euro as long as worries over the health of the euro zone economy persist.

Oil prices climbed 1% on Friday after a report from the OPEC showed its production fell sharply last month, easing fears about prolonged oversupply. OPEC along with some other producers including Russia, cut oil output sharply in December before a new accord to limit supply took effect on Jan. 1, it said on Thursday, suggesting that producers have made a strong start to averting a glut in 2019 as a slowing economy curbs demand.

	LAST	1D	YTD
CURRENCIES			
DXY	96.084	0.02%	-0.09%
EUR/\$	1.1396	0.06%	-0.62%
GBP/\$	1.2965	-0.16%	1.65%
AUD /\$	0.7192	-0.01%	2.03%
NZD/\$	0.6768	0.07%	0.73%
\$/JPY	109.39	-0.12%	0.27%
\$/CAD	1.3268	0.08%	2.78%
\$/CHF	0.9940	0.02%	-1.20%
\$/SEK	9.0050	0.16%	-1.68%
\$/NOK	8.5373	0.16%	1.21%
\$/DKK	6.5503	0.06%	-0.59%
\$/TRY	5.3572	-0.18%	-1.27%
EUR/GBP	0.8790	-0.23%	2.27%
EUR/JPY	124.67	-0.20%	0.93%
EUR/CHF	1.1328	-0.04%	-0.64%
COMMODITIES			
Gold Spot \$/Oz	1290.88	-0.09%	0.65%
Silver Spot \$/Oz	15.54	0.08%	0.29%
Platinum Spot \$/Oz	814.30	0.49%	2.34%
Palladium Spot \$/Oz	1414.39	1.06%	12.09%
COPPER \$/lb	269.85	0.69%	2.57%
WTI \$/bbl	52.61	1.04%	15.86%
BRENT \$/bbl	61.75	0.93%	14.78%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
GBP	11:30	UK Retail Sales MoM	-0.80%	1.40%
CAD	15:30	CPI MoM	-0.40%	-0.40%
USD	17:00	US UoM Consumer Sentiment	97.0	98.0

Next Week: China GDP, Industrial Production, Retail Sales, UK Jobs Report, Eurozone ZEW Economic Sentiment, NZ CPI, BoJ Outlook Report, BoJ Policy Decision + Press Conference, Canada Retail Sales, AU Jobs Report, Eurozone Flash Manufacturing PMI, ECB Policy Decision + Press Conference, German Ifo Business Climate

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STOCKS & BONDS

Asian stocks rose across the board on Friday as a report of progress in US-China trade talks stirred hopes of a deal in their tariff dispute and supported risk sentiment. The Wall Street Journal reported on Thursday that US Treasury Secretary Steven Mnuchin discussed lifting some or all tariffs imposed on Chinese imports and suggested offering a tariff rollback during trade discussions scheduled for Jan. 30. With equity markets having taken a knock on the trade tensions last year, even the whiff of progress in the months-long Sino-US trade war was enough to boost risk sentiment. MSCI's broadest index of Asia-Pacific shares outside Japan added 0.55%. The index has gained 1.3% this week. The Shanghai Composite Index was up 1%. Australian stocks rose 0.5%, South Korea's KOSPI advanced 0.6% while Japan's Nikkei gained more than 1% to a one-month high.

US stocks advanced on Thursday as hopes of a resolution to the trade dispute between the US and China boosted industrial shares and lifted investor sentiment. Stocks spiked higher in afternoon trading after the Wall Street Journal reported that US Treasury Secretary Steven Mnuchin discussed lifting some or all tariffs imposed on Chinese imports and suggested offering a tariff rollback during trade discussions scheduled for Jan. 30. S&P 500 industrial stocks, which have been sensitive to trade developments, rose 1.7%. They held most of their gains even as US stocks pulled back from session highs after a Treasury spokesman said that Mnuchin had not made any such recommendations. Earlier, industrial stocks had moved higher as shares of defense contractors rose after President Donald Trump unveiled a new US missile defense strategy. Shares of Northrop Grumman Corp advanced 3.3%, and shares of Lockheed Martin Corp gained 2.4%. With Thursday's gains, the benchmark S&P 500 index closed above its 50-day moving average for the first time since Dec. 3. The S&P 500 is 10.1% away from its Sept. 20 record close after having rallied from a 20-month low on Christmas Eve on concerns over a global economic slowdown. Also helping to boost stocks on Thursday was a rebound in financial shares, which ended 0.5% higher after having dropped as much as 1%. The financial index has posted gains for seven straight sessions. However, shares of Morgan Stanley ended 4.4% lower after the investment bank reported a lower-than-expected quarterly profit. In after-hours trading, shares of Netflix Inc fell 2% after the video-streaming company reported quarterly results.

Most Gulf markets were lifted yesterday by corporate earnings announcements. Dubai index rose, buoyed by heavyweight constituents. Lender Emirates NBD rose by 1.1% and developer Emaar Properties advanced by 1.3%.

	LAST	1D	YTD
AMERICA			
DOW JONES	24370.10	0.67%	4.47%
S&P 500	2635.96	0.76%	5.15%
NASDAQ	7084.46	0.71%	6.77%
S&P/TSX	15211.22	0.66%	6.20%
EUROPE			
STXE 600	350.73	0.04%	3.87%
FTSE 100	6834.92	-0.40%	1.59%
CAC 40	4794.37	-0.34%	1.35%
DAX	10918.62	-0.12%	3.41%
ASIA PACIFIC			
S&P/ASX 200	5879.59	0.50%	4.13%
NIKKEI 225	20666.07	1.29%	3.25%
TOPIX	1557.59	0.93%	4.25%
CSI 300 (China)	3168.17	1.82%	5.23%
MENA			
Saudi Arabia	8448.02	0.49%	7.94%
Abu Dhabi	4985.30	0.05%	1.43%
Dubai	2516.81	0.64%	-0.51%
Qatar	10787.75	0.24%	4.75%
Oman	4236.75	-0.50%	-2.01%
Egypt	13482.99	-0.20%	3.43%
Kuwait	5480.34	0.23%	4.04%
Bahrain	1341.22	0.11%	0.30%
10-YEAR BONDS			
U.S.	2.7518	0.0014	0.0676
Germany	0.2530	0.0100	0.0110
U.K.	1.3370	0.0260	0.0600
France	0.6500	0.0070	-0.0600
Australia	2.3150	0.0340	-0.0030
Japan	0.0120	0.0060	0.0090

Major Company News

- American Express Co missed Wall Street's fourth-quarter profit estimates on Thursday, as the rate of customer spending slowed despite a strong US holiday sales season.
- Rio Tinto on Friday logged a slight drop in quarterly iron ore production in December and said it expected to produce more iron ore in 2019 in a target range that was at the lower end of analyst expectations.
- Brazil's aviation regulator said on Thursday it was going to ground 10 planes operated by Avianca Brasil, 20% of its fleet, prompting the carrier to go to court seeking to prevent the decision being enforced.
- Netflix Inc on Thursday said more than 80 million member households will have watched its thriller movie "Bird Box" in its first four weeks, but the streaming giant gave no viewing data for Oscar hopeful "Roma."
- DowDuPont's agriculture unit, Corteva Agriscience, is gearing up to broadly sell farmers in North America and Brazil, a new type of genetically modified soybean for planting next year in a challenge to rival Bayer AG.
- Schlumberger signed a contract worth over \$200 million with oil major Equinor to manage an offshore rig as part of a drilling program in Brazil's offshore Campos oil basin. (Reuters sources)
- Sears Holdings Corp Chairman Eddie Lampert won a bankruptcy auction to buy the once iconic US retailer after presenting an improved offer of \$5.2 billion, Sears said on Thursday, but creditors quickly moved to oppose the deal.
- Triun Fund Management LP will not challenge PPG Industries Inc's board of directors at its 2019 shareholder meeting after the US paints and coatings company met some of the activist hedge fund's demands and announced new financial targets (Reuters sources)
- Fossil Group Inc said on Thursday it would sell its intellectual property related to a smartwatch technology currently under development to Google for \$40 million, sending shares up as much as 11%.



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TOP SELECTED NEWS

Gloomy forecast for Davos: crises aplenty, but few world leaders

(Reuters) An array of crises will keep several world leaders away from the annual World Economic Forum in Davos next week, which takes place against a backdrop of deepening gloom over the global economic and political outlook. Anxieties over trade disputes, fractious international relations, Brexit and a growth slowdown that some fear could tip the world economy into recession are set to dominate the Jan. 22-25 Alpine meeting. The WEF's own Global Risks Report set the tone this week with a stark warning of looming economic headwinds, in part because of geopolitical tensions among major powers. Some 3,000 business, government and civil society figures are due to gather in the snow-blanketed ski resort, but among them are only three leaders of the Group of Seven most industrialized countries: Japanese Prime Minister Shinzo Abe, German Chancellor Angela Merkel and Italian Premier Giuseppe Conte. Donald Trump, who stole the Davos limelight last year with a rare appearance by a sitting U.S. president, pulled out of this year's event as he grapples with a partial U.S. government shutdown. On Thursday, the White House said Trump had also canceled his delegation's trip to Davos because of the shutdown, now in its 27th day. Treasury Secretary Steven Mnuchin and Secretary of State Mike Pompeo had been expected to lead the U.S. team, according to two senior administration officials.

Brexit battle lines harden as May search for a deal

(Bloomberg) Theresa May's bid to break Britain's Brexit gridlock faltered Thursday after she refused to give up her red lines to reach a compromise with her political opponents. Less than 24 hours after the prime minister started talks with senior politicians from six parties in Parliament, she was locked in a political stalemate with the leader of the main opposition Labour Party, Jeremy Corbyn. May is trying to resuscitate her Brexit deal after Parliament voted it down in a landslide defeat Tuesday. She's meeting with the heads of rival parties in an effort to find a way forward, but in a letter Corbyn demanded that May rule out the possibility of a no-deal exit before he'll even meet with her. May wrote back, saying Corbyn's precondition was "impossible" and she told a group of pro-Brexit Conservatives Thursday that she wouldn't rule out a no-deal exit, delay Brexit day or keep Britain in a customs union with the EU, according to people familiar with the matter. Far from taking a no-deal off the table, the UK government put military reserves on standby to help prepare for it. The EU also said it's stepping up preparations for a no-deal Brexit, after UK politicians resoundingly rejected the deal it struck with May in November. The European Commission's deputy secretary-general is planning to tour EU capitals to discuss their no-deal plans.

EU says takes 'very seriously' possibility of no-deal Brexit

(Bloomberg) The European Commission said it is "not taking any chances" in preparing for Brexit as the possibility of a no-deal divorce was seen to increase after UK Prime Minister Theresa May's withdrawal agreement suffered a historic defeat in Parliament this week. "We are taking this very seriously now as the possibility of a no-deal Brexit is becoming more possible

after Tuesday night," Margaritis Schinas, spokesman for the commission, the EU's executive arm, told reporters in Brussels on Thursday. "We have prepared a significant package on preparedness work" in case Britain crashes out of the EU without an agreement, he said. The commission's deputy secretary-general is embarking on a tour of the EU capitals to discuss their preparations for a no-deal exit and to coordinate individual governments' efforts with the EU-wide measures, Schinas said. The commission's contingency plans focus on "essential and urgent" policies, ranging from air traffic to data sharing to derivatives clearing.

Germany, China pledge to open markets, deepen financial cooperation

(Reuters) Germany and China on Friday signed agreements to strengthen coordination in banking, finance and capital markets, and pledged to further open market access and deepen cooperation to broaden economic ties. The agreements were reached after a two-day visit to Beijing by German Finance Minister Olaf Scholz for talks with Vice Premier Liu He, who is President Xi Jinping's top economic adviser. Both sides reaffirmed that "they will strengthen macroeconomic policy coordination and pragmatic cooperation in the fiscal and financial fields and expand strategic cooperation," according to a joint statement after the talks. Trade between the two nations has softened amid uncertainty caused by the U.S.-China trade war, but both have shown a willingness to demonstrate that the world remains multilateral. They agreed to work to improve international economic governance, maintain the global multilateral system, fight trade protectionism and support a rule-based multilateral trading system through the World Trade Organization. "It is important that, contrary to recent trends that we can observe elsewhere, we are seeing progress in our cooperation," Scholz told reporters before the talks at the Diaoyutai State Guest House in the Chinese capital. A level playing field in terms of market access for banks and insurers is important, added Scholz.

Volatile market hits Morgan Stanley's trading, wealth management

(Reuters) Morgan Stanley's quarterly profit fell short of expectations as bond trading revenue slumped more than rivals and its wealth management business faltered, sending its shares down 4.4%. The bank has pledged that its expansion into wealth management over the past decade would help deliver more stable results. But the unit, which accounts for roughly half of Morgan Stanley's revenue, was not immune from year-end market volatility that drove customers to the sidelines. Morgan Stanley also noted the impact of changes to compensation that addressed what Chief Executive James Gorman called a "very aggressive" deferral program. Gorman said that Morgan Stanley had been "mortgaging (its) future" by delaying payouts. On a call with analysts, Gorman characterized the fourth quarter as a temporary, if disappointing, blip. "2018 was a great year that finished on a disappointing note," he said. "We do not believe the fourth quarter is the new normal." Although market volatility hurt trading, underwriting, wealth management and asset management revenue, Morgan Stanley is keeping a tight lid on costs and making purposeful decisions to position itself for growth, he said.



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