

GLOBAL MARKETS

Monday, January 28, 2019

Markets in brief

- U.S. dollar started the week under pressure as investors turned their attention to Fed's decision on Wednesday and to the Nonfarm payrolls on Friday.
- Japanese yen was weighed by BoJ's downgrade for its inflation forecasts.
- Australian dollar firmed on hopes that China would work on supporting its economy.
- British pound lost some of its steam ahead of a crucial week for PM May. BoE Carney will speak at 16:30 LT.
- Euro managed to trade steadily despite ECB's dovish comments last week. ECB Draghi will speak today 16:00 LT.
- Oil prices dropped after a report showing increase in U.S. rigs.
- U.S. stocks rallied on Friday on news that the shutdown will end temporarily.
- Asian stocks were mixed today as traders monitored progress in U.S.-China talks.

China posting weak data ... talks to continue this week

Earnings at China's industrial firms shrank for a second straight month in December, putting pressure on policymakers to support industries hurt by slowing prices and weak factory activity amid a protracted US-Sino trade war. Vice ministers from Beijing arrive in Washington today to pave the way for talks. President Xi's top economic aide, Vice Premier Liu He, meets with US Trade Rep. Robert Lighthizer and Treasury Secretary Steven Mnuchin on Wednesday and Thursday.

Crucial week for Brexit

Battle lines are hardening as PM Theresa May faces votes in Parliament this week on amendments to her Brexit Withdrawal Agreement. The government is opposing moves by rank-and-file politicians to force a delay in the March exit date rather than crash out of the EU without an agreement. Yet opposition Labour lawmaker Yvette Cooper, who has proposed an amendment to postpone the departure, said it's the only appropriate course of action. Votes on amendments are planned Tuesday. The British pound got a short-lived bump after the Sun reported the PM privately told her Cabinet she won't allow a no-deal exit. EC President Jean-Claude Juncker said May must shift to favor a permanent customs union if she wants to revise the Irish backstop, the Guardian said.

U.S. government shutdown taking a short break

White House Chief of Staff Mick Mulvaney said President Trump was willing to close the government again if he and congressional leaders can't strike a budget deal that includes wall funding. Trump doesn't think congressional negotiators can reach an acceptable deal in the next three weeks and vowed to build a wall anyway, even if he has to use emergency powers, he told the Wall Street Journal.

Company news

The US Treasury Department lifted sanctions on three firms tied to Russian tycoon Oleg Deripaska, including United Co. Rusal, a move that will provide relief to the global aluminum market. The metal fell in London. Deripaska, an ally of Russian leader Vladimir Putin, will remain under US sanctions, and his property will remain blocked. But the Treasury Dpt is removing restrictions on Rusal, En+ Group and EuroSibEnerg JSC.

The Securities and Exchange Commission is investigating whether Nissan Motor Co. accurately disclosed its executive pay in the US, according to several people familiar with the matter, compounding the carmaker's woes as it grapples with the aftermath of former chairman Carlos Ghosn's arrest.

Deutsche Bank AG has secured a commitment for additional investment from Qatar as the troubled German lender seeks to bolster its finances. (Bloomberg)

FX & COMMODITIES	LAST	1D
EUR/\$	1.1411	0.04%
GBP/\$	1.3181	-0.11%
AUD /\$	0.7189	0.14%
NZD/\$	0.6858	0.28%
\$/JPY	109.32	0.21%
\$/CAD	1.3218	0.00%
\$/CHF	0.9915	0.24%
Gold \$	1301.58	-0.28%
Silver \$	15.76	-0.03%
Platinum \$	817.10	-0.13%
WTI \$	52.99	-1.30%
BRENT \$	60.79	-1.38%
AMERICA		
DOW JONES	24737.20	0.75%
S&P 500	2664.76	0.85%
NASDAQ	7164.86	1.29%
EUROPE		
STXE 600	357.84	0.61%
CAC 40	4925.82	1.11%
DAX	11281.79	1.36%
ASIA PACIFIC		
S&P/ASX 200	5905.61	0.68%
NIKKEI 225	20649.00	-0.60%
CSI 300 (China)	3182.75	-0.05%
MENA		
Saudi Arabia	8509.43	0.88%
Dubai	2539.64	1.01%
Qatar	10668.14	-0.41%
BONDS		
U.S. 10-year	2.7440	-0.0001
German Bund 10-year	0.1940	0.0000
AU 10-year	2.2110	0.0000
BEIRUT S.E.		
SOLIDERE - A	6.42	-1.53%
SOLIDERE - B	6.37	-0.78%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	4.64	-
BLOM BANK	9.10	-
BYBLOS BANK	1.35	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.57	-

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FX & COMMODITIES

The US dollar eased versus most of its peers on Monday as investors turned their attention to this week's Fed policy meeting, with traders wagering policymakers will signal a pause in their tightening cycle. The FOMC meets between Jan 29-30, and Chairman Jerome Powell is widely expected to acknowledge growing risks to the US economy as global momentum weakens. The dollar index, a gauge of its value versus six major peers was flat at 95.783, after falling 0.8% on Friday. A deal to reopen the US government for now after a prolonged shutdown also reduced investor demand for the safety of the greenback. Over the past two months or so, Powell and several other Fed policymakers have taken a more cautious approach on further monetary tightening, leaving the dollar underpowered after it enjoyed a boost from the Fed's four rate increases last year. Traders are bearish on the dollar for 2019. Amid a weakening global economy and US-Sino trade tensions, the US central bank is widely expected to hold rates steady this year to avoid hurting growth at home. Interest rate futures markets are pricing in no rate hikes for 2019. Investors are also anxiously waiting news from high-level US-China trade talks on Tuesday and Wednesday to see if the world's largest economies can reach a compromise that will end their trade war. Trump has threatened to hike tariffs on Chinese goods if there is no significant progress in the negotiations.

The Japanese yen steadied today. The dollar has gained around 1.2% on the yen over the last two weeks. Not helping the yen was the Bank of Japan's downgrade of its inflation forecasts last week when it also maintained its accommodative monetary policy, as widely expected. Moreover, Japanese investors have been net buyers of foreign bonds over the last few weeks, stoking demand for dollars. This likely explains why the safe-haven yen has not appreciated during this period even though risks of a global economic slowdown have rattled investor sentiment.

The euro managed to cling on to a 0.4% gain made last week despite the ECB downgrading its growth forecasts for the near term. Growth data out of Europe's economic powerhouses such as Germany and France has been weaker-than-expected and analysts expect the ECB to remain dovish for an extended period. Traders believe Europe's slowdown and a dovish ECB are priced into the euro, which traded in a \$1.12-\$1.16 range over the last 3 months.

The British pound was marginally lower. Cable gained 2.5% last week after a report in the Sun newspaper that Northern Ireland's Democratic Unionist Party had privately decided to offer conditional backing for British Prime Minister Theresa May's Brexit deal this week. However, Ireland's Deputy Prime Minister Simon Coveney said on Sunday the backstop was already a compromise drawn up to meet May's negotiating red lines, and the EU and Ireland were united in the view it "was not going to change". Analysts expect sterling to remain volatile. Britain is set to leave the European Union on March 29, but the country's members of parliament remain far from agreeing a divorce deal.

The Australian and NZ dollars rallied a second day as China made more funds available for lending and traders look ahead to the resumption of Sino-US trade talks this week. Aussie rose to a 1-week high, tracking gains in the yuan after the PBOC said Friday the nation's lenders have an extra 250b yuan potentially available for lending. The move eased concerns about a slowdown as data Monday showed profits of Chinese industrial companies fell for a 2nd month in December.

Oil prices fell by 1% on Monday after US companies added rigs for the first time this year, a signal that crude output may rise further, and China, the world's second-largest oil user, reported additional signs of an economic slowdown. In a sign that output could rise further, US energy firms last week raised the number of rigs looking for new oil for the first time in 2019 to 862, an additional 10 rigs, Baker Hughes firm said in its weekly report.

	LAST	1D	YTD
CURRENCIES			
DXY	95.783	-0.01%	-0.41%
EUR/\$	1.1411	0.04%	-0.49%
GBP/\$	1.3181	-0.11%	3.35%
AUD/\$	0.7189	0.14%	1.99%
NZD/\$	0.6858	0.28%	2.07%
\$/JPY	109.32	0.21%	0.34%
\$/CAD	1.3218	0.00%	3.17%
\$/CHF	0.9915	0.24%	-0.95%
\$/SEK	9.0439	0.05%	-2.11%
\$/NOK	8.5090	0.05%	1.55%
\$/DKK	6.5425	0.05%	-0.48%
\$/TRY	5.2676	0.09%	0.41%
EUR/GBP	0.8657	-0.18%	3.84%
EUR/JPY	124.74	0.14%	0.87%
EUR/CHF	1.1314	0.14%	-0.52%
COMMODITIES			
Gold Spot \$/Oz	1301.58	-0.28%	1.49%
Silver Spot \$/Oz	15.76	-0.03%	1.73%
Platinum Spot \$/Oz	817.10	-0.13%	2.70%
Palladium Spot \$/Oz	1356.21	-0.57%	7.48%
COPPER \$/lb	271.05	-0.68%	3.02%
WTI \$/bbl	52.99	-1.30%	16.69%
BRENT \$/bbl	60.79	-1.38%	12.99%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
EUR	16:00	ECB Draghi speaks		
GBP	16:30	BoE Carney speaks		
NZD	23:45	NZ Trade Balance	225M	-861M

Tuesday: AU Business Confidence, US CB Consumer Confidence

Wednesday: Japan Retail Sales, AU CPI, German Prelim CPI MoM, FOMC Policy Decision + Press Conference

Thursday: China Manufacturing and Non-Manufacturing PMI, Eurozone Flash GDP QoQ, Canada GDP MoM, US Personal Spending, US Core PCE Price Index

Friday: AU PPI QoQ, UK Manufacturing PMI, US Jobs Report, US ISM Manufacturing PMI, US Consumer Sentiment

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STOCKS & BONDS

Asian shares ticked up on Monday though they retreated from earlier highs as relief on news of a deal to reopen the US government following a prolonged shutdown gave way to edginess before a key round of Sino-US trade talks. European shares are expected to dip at their open, with spread-bettors looking to a fall of 0.3% in London's FTSE and a 0.4% drop in Frankfurt's DAX and Paris's CAC. E-Mini futures for the S&P 500 were last down 0.4%. MSCI's broadest index of Asia-Pacific shares outside Japan was almost flat, pulling back after hitting its highest since Oct. 4 early in the session. China's benchmark Shanghai Composite and Hong Kong's Hang Seng lost almost 0.2% while South Korea's KOSPI was largely flat. Japan's Nikkei closed 0.6% lower while Australian financial markets were shut for their 'Australia Day' holiday.

US stocks gained ground on Friday in a broad-based rally as investors were heartened by news that Washington would move to temporarily end the longest US government shutdown in history. All three major US stock indexes advanced, with the Dow and the Nasdaq eking out their fifth straight weekly gains. But the S&P 500 posted its first weekly loss of the year, snapping a four-week run. The indexes backed off their highs after President Donald Trump confirmed he and lawmakers agreed to advance a three-week stop-gap spending plan to reopen the government. Investor sentiment had faltered in recent days in the face of revived jitters related to the shutdown and the prolonged US-China tariff spat. Among these uncertainties, the ongoing trade dispute between the US and China continues to worry investors. With the World Economic Forum in Davos, Switzerland, nearing its conclusion, business leaders have expressed worries over the tariff battles, saying they are "fed up" with Trump's policies. An escalation of the US-China trade war would sharpen the global economic slowdown already under way, according to a Reuters poll of hundreds of economists worldwide. Q4 corporate earnings season is in high gear, with more than 22% of S&P 500 companies having reported. Of those, 72.3% have beaten analyst expectations. Earnings on Friday were a mixed bag. Starbucks Corp also surpassed Wall Street consensus, reporting better-than-anticipated quarterly sales. The coffee chain's shares advanced 3.6%. Consumer products company Colgate-Palmolive Co reported Q4 revenue that surprised to the upside but said it expects profit to decline in 2019. Its stock edged down 0.6%. Intel Corp shares dropped 5.5% following the chipmaker's disappointing Q4 sales and current-quarter forecasts. Still, the Philadelphia SE Semiconductor Index ended the session up 2.2% in the wake of a spate of positive earnings from other chipmakers. DR Horton Inc's quarterly results fell short of analyst expectations, underscoring persistent weakness in the US housing market. The homebuilder's shares fell 2.6%. Western Digital Corp also disappointed, but its closed 7.5% higher after providing an upbeat forecast and saying it was committed to paying dividends.

Gulf markets closed mainly higher on Sunday thanks to strong financials. Egypt's blue-chip index rose sharply, helping it catch up with gains in other emerging markets.

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Dubai	2539.64	1.01%	0.84%
Qatar	10668.14	-0.41%	3.37%
Oman	4166.38	-0.33%	-3.65%
Egypt	13817.10	2.30%	5.99%
Kuwait	5425.74	-1.23%	2.57%
Bahrain	1390.89	1.22%	2.75%
10-YEAR BONDS			
U.S.	2.7440	-0.0145	0.0598
Germany	0.1940	0.0010	-0.0480
U.K.	1.3050	0.0400	0.0280
France	0.5960	-0.0020	-0.1140
Australia	2.2110	0.0000	-0.1070
Japan	0.0000	0.0030	-0.0030

Major Company News

- China's envoy to the EU warned that excluding Chinese tech group Huawei could hamper new 5G mobile networks, the Financial Times.
- Search engine Bing's outage in China last week was a technical error, rather than an intentional censorship block, a source familiar with the matter said, although Chinese authorities and Microsoft have not commented on the topic. (Reuters)
- France's finance minister said on Sunday a severance package for former Renault chief Carlos Ghosn, forced to resign in a financial scandal, should not be "exorbitant" and that the French state would follow the matter closely.
- Vale SA, the world's largest iron ore miner, suspended its planned shareholder dividends, share buybacks and executive bonuses in light of a deadly tailings dam disaster in Brazil, according to a securities filing late on Sunday.
- Brazilian environmental agency Ibama has fined miner Vale SA 250 million reais (\$66.32 million) for various violations related to a tailings dam that burst at its Corrego do Feijao iron ore mine on Friday.
- Cerberus and Centerbridge made a joint bid for a minority stake in German public sector lender NordLB on Sat (Reuters)
- Mastercard said on Friday it still plans to apply for a bankcard clearing license in China and was in "active discussions" to explore solutions.
- Abu Dhabi National Oil Company (ADNOC) said on Sunday it had signed two strategic equity partnerships with Italy's ENI and Austria's OMV covering ADNOC refining and a new trading venture to be jointly established by the three partners.
- Chinese regulators have approved two of Tencent's mobile games for commercial launch, the first green lights for the firm in almost a year, though they are yet to make a keenly-awaited ruling on blockbuster PlayerUnknown's Battlegrounds.

TOP SELECTED NEWS

Major central banks to slow pace of tightening, Moody's

(Bloomberg) A more downbeat view of the global economy merits lower expectations for tightening by the world's major central banks, according to Moody's Investors Service. The Fed probably will hike interest rates two times this year, at most, instead of the previously projected three or four, analysts at the credit-rating company, including vice president Madhavi Bokil, said in a research note dated Friday. The ECB will delay increasing deposit facility and refinancing rates until 2020, they said, revising a forecast for the second half of 2019. "With the pace of economic expansion slowing across major economies and the balance of risks tilting to the downside, the G-3 central banks -- the US Fed, the European Central Bank and the Bank of Japan -- are all signaling a wait-and-see approach," the Moody's analysts wrote. The company's views were altered in part because of the Fed's recent greater emphasis on the need to be "patient" and "cautious," Moody's said. Uncertainties include US-China trade talks, the Chinese economic slowdown, and shifting market sentiment. The prolonged US government shutdown, which has at least temporarily ended, has left holes in the economic data.

US economy lost at least \$6 bn to gov't shutdown: S&P

(Reuters) The US economy lost at least \$6 billion during the partial shutdown of the federal government due to lost productivity from furloughed workers and economic activity lost to outside business, S&P Global Ratings said on Friday. President Donald Trump agreed on Friday to end the 35-day partial shutdown, the longest in history, without getting the \$5.7 billion he had demanded from Congress for a border wall. "Although this shutdown has ended, little agreement on Capitol Hill will likely weigh on business confidence and financial market sentiments," S&P said in a news release.

BOJ minutes show disagreement over level of bond yields

(Reuters) Bank of Japan policymakers disagreed over the appropriate level of bond yields, minutes from the central bank's meeting last month showed in a sign of the strain on the BOJ's monetary framework as the global economy weakens. One member said long-term yields should be allowed to temporarily turn negative, according to minutes of the central bank's Dec. 19-20 meeting released on Monday. The minutes do not identify the board members by name. Another member agreed, saying yields have fallen due to worries about the US-Sino trade war and that conducting market operations to raise yields would tighten monetary policy. Yet another member said the BOJ should strengthen policy to reach its 2% inflation target. In contrast, one member said long-term yields need to be higher to ease the burden on the financial system and make corporate bonds more attractive to investors. This member also said revising the BOJ's government bond purchases is one future option. Rising pressure from the trade war between China and the US -- Japan's biggest trading partners -- is weighing on the world's third-largest economy and undermining years of efforts by policymakers to foster durable growth.

\$1.5 tn US tax cut has no major impact on business capex

(Reuters) The Trump administration's \$1.5 trillion cut tax package appeared to have no major impact on businesses'

capital investment or hiring plans, according to a survey released a year after the biggest overhaul of the US tax code in more than 30 years. The National Association of Business Economics' (NABE) quarterly business conditions poll published on Monday found that while some companies reported accelerating investments because of lower corporate taxes, 84% of respondents said they had not changed plans. That compares to 81% in the previous survey published in October. The White House had predicted that the massive fiscal stimulus package, marked by the reduction in the corporate tax rate to 21% from 35%, would boost business spending and job growth. The tax cuts came into effect in January 2018. "A large majority of respondents, 84%, indicate that one year after its passage, the corporate tax reform has not caused their firms to change hiring or investment plans," said NABE President Kevin Swift. The lower tax rates, however, had an impact in the goods producing sector, with 50% of respondents from that sector reporting increased investments at their companies, and 20% saying they redirected hiring and investments to the US from abroad.

Siemens, Alstom offer concessions to rescue rail merger

(Bloomberg) Siemens AG and Alstom SA have offered a last-minute package of concessions aimed at allaying European Union antitrust concerns that their planned rail merger would hurt competition in the region. Although the magnitude of the sales to be divested is unchanged, at about four% of revenue of the combined entity, the remedies have been modified, Alstom said in a statement on Monday. The companies have offered to sell signaling assets as well as longer licensing agreements, and have already identified potential acquirers, people familiar with the matter told Bloomberg News Jan. 25. The EU's top competition official, Margrethe Vestager, has come under intense political pressure from France and Germany to allow the deal to go through, with the governments arguing in favor of the emergence of a European champion to take on competition from China. Executives and politicians mounted a fierce campaign this week to sway Vestager, who said she was still open to a new proposal, but that it would have to be "very blunt" -- or sizeable. A collapse of the deal would be a setback for two historic European industrial manufacturers and former fierce rivals. Their plan, unveiled in September 2017, was to build a transportation giant out of Siemens's mobility unit and Alstom, with the idea that the resulting entity, with combined sales of about 15 billion euros (\$17 billion), would be able to counter global competition, especially from China.

Saudi Aramco doubles down on S. Korea with \$1.6 bn bet

(Reuters) State-owned Saudi Aramco plans to invest up to \$1.6 billion for a nearly 20 percent stake in South Korean refiner Hyundai Oilbank, expanding its foothold in one of its biggest Asian buyers of crude oil. Saudi Aramco is already the biggest shareholder in South Korea's No.3 refiner, S-Oil Corp, with a 63.41 percent stake, and the latest deal should help Aramco boost crude oil sales to Hyundai Oilbank, the South's smallest refiner by capacity. Saudi Arabia is the top crude oil supplier to South Korea, the world's fifth-biggest importer. In 2018, South Korea imported 323.17 million barrels of crude from the kingdom, or 885,408 bpd, according to data from Korea National Oil Corp.



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