

GLOBAL MARKETS

Tuesday, January 29, 2019

Markets in brief

- Pessimism resurfaced as U.S.'s charges against Huawei could complicate trade talks.
- Safe-haven assets firmed while Asian stocks dropped. Gold hit a 7-month high.
- Australian dollar steadied gaining some support from an RBA official saying that the next move would be a rate hike.
- Euro held on to recent gains above \$1.14 level.
- British pound pulled back from 3-month highs. Traders would be waiting for today's debate and vote on May's next step.
- Oil prices rose after the U.S. imposed sanction on Venezuela's PDVSA.
- U.S. stocks got hit yesterday from some weak corporate earnings.
- Most Gulf stock markets ended up yesterday. Saudi index hit 3 1/2-year highs.

U.S. charging Huawei, trade talks under threat

The U.S. on Monday announced criminal charges against China's Huawei Technologies Co Ltd, escalating a fight with the world's biggest telecommunications equipment maker which denies wrongdoing, and coming days before trade talks with Beijing. Huawei with bank fraud, wire fraud, sanctions violations and IP theft on a scale both widespread and blessed at high levels. Bonuses were allegedly paid to employees who stole technology from rivals. Prosecutors are seeking the extradition of CFO Meng Wanzhou, daughter of the company's founder, who was arrested in Canada Dec. 1. China's Foreign Ministry urged the United States to stop "unreasonable suppression" of Chinese companies, including Huawei, and to lift an arrest warrant against Meng. Beijing would resolutely protect the lawful interests of Chinese companies, the ministry said in a statement.

... Trump to meet Chinese top negotiator

U.S. Treasury Secretary Steven Mnuchin said on Monday the United States expects significant progress this week in trade talks with Chinese Vice Premier Liu He, but the two sides will be tackling "complicated issues", including how to enforce any deal. The talks, scheduled for Wednesday and Thursday in Washington, will include a meeting between Liu and U.S. President Donald Trump and take place amid worsening tensions between the world's two largest economies.

China working on stimulating its economy

Chinese regulators have cut the premium that local governments must pay to issue debt, sources with direct knowledge of the matter told Reuters on Tuesday, lowering their borrowing costs as Beijing hopes to kick start investments and shore up growth. The change comes after overwhelming demand saw recent local gov't bond issues massively oversubscribed, underscoring both their distorted pricing and the market's appetite for high-quality debt as Beijing relaxes monetary conditions. TNational People's Congress began a special session today to approve a foreign-investment bill, and the gov't unveiled incentives to boost consumption, including subsidies for electric cars.

May working on a deal ... Not hers

PM Theresa May is backing a plan to ditch the most contentious part of her Brexit deal as she scrambles for a compromise all sides can support, with time running out before the UK leaves the EU. In a dramatic meeting on Monday, May effectively abandoned the agreement she's spent the past 18 months negotiating with the EU and threw the weight of her government behind a move to re-write the deal. She's urged MPs to support the Brady amendment, which calls for alternative arrangements. One EU official said passage of the amendment today wouldn't persuade the bloc to make compromises. Tory MPs have prepared a "Plan C" that would extend the 21-month transition period, The Telegraph reported

FX & COMMODITIES	LAST	1D
EUR/\$	1.1437	0.08%
GBP/\$	1.3152	-0.08%
AUD /\$	0.7166	0.00%
NZD/\$	0.6850	0.29%
\$/JPY	109.28	0.06%
\$/CAD	1.3250	0.09%
\$/CHF	0.9919	-0.01%
Gold \$	1306.20	0.22%
Silver \$	15.83	0.55%
Platinum \$	814.92	0.35%
WTI \$	52.23	0.46%
BRENT \$	60.13	0.33%
AMERICA		
DOW JONES	24528.22	-0.84%
S&P 500	2643.85	-0.78%
NASDAQ	7085.69	-1.11%
EUROPE		
STXE 600	354.38	-0.97%
CAC 40	4888.58	-0.76%
DAX	11210.31	-0.63%
ASIA PACIFIC		
S&P/ASX 200	5874.17	-0.53%
NIKKEI 225	20664.64	0.08%
CSI 300 (China)	3193.37	0.30%
MENA		
Saudi Arabia	8623.93	1.35%
Dubai	2570.94	1.23%
Qatar	10704.73	0.34%
BONDS		
U.S. 10-year	2.7349	-0.0001
German Bund 10-year	0.2100	0.0001
AU 10-year	2.2310	0.0002
BEIRUT S.E.		
SOLIDERE - A	6.39	-0.47%
SOLIDERE - B	6.18	-2.98%
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 Japanese yen strengthened versus its peers on Tuesday, as investors took refuge in safe-haven assets after the US Justice Department charged China's Huawei Technologies Co Ltd with fraud, ratcheting up US-Sino trade tensions. The US on Monday charged Huawei, its chief financial officer and two affiliates with bank and wire fraud to violate sanctions against Iran in a case that has escalated tensions with Beijing. Investors fear the charges could complicate high-level trade talks set to begin on Wednesday when China's Vice Premier Liu He will meet with US Trade Representative Robert Lighthizer and others. China expressed serious concern about US charges on Huawei, with its foreign ministry saying on Tuesday that Beijing would protect the lawful interests of Chinese companies. The yen, a currency sought out during times of market uncertainty or economic stress, advanced 0.06% versus the greenback to 109.28. Against the Aussie dollar, the yen was up 0.2% at 78.18. The euro also lost 0.1% of its value versus the Japanese currency to 124.80 as investors took shelter in the safe-haven currency. The dollar index, a gauge of its value versus six major peers, was flat at 95.718 and holding close to a 2-week low. Market participants are focusing on the Federal Open Market Committee policy meeting between Jan. 29-30, where Chairman Jerome Powell is widely expected to acknowledge growing risks to the US economy as global momentum weakens. Investors expect the Fed to adopt a more cautious stance on policy than they did in 2018, pressured by signs of a peak in US corporate earnings and the loss of economic momentum both at home and globally. The interest rate futures market is pricing in no Fed hikes this year. Last year, the dollar enjoyed a solid rally as the US central bank raised rates four times because of a robust economy.

The Australian dollar was flat but well off its intra-day low after the Reserve Bank of Australia (RBA) board member Ian Harper said that the next move in Australian rates would be up.

The euro was a bit firmer, but not far off its highest level in more than a week. Traders believe recent weak economic readings in Germany and France, and the European Central Bank's dovish stance, are already priced into the euro.

The British pound was also slightly down 0.1% at \$1.3152, pulling back from 3-month highs. Later on Tuesday, lawmakers will debate and vote on British Prime Minister Theresa May's next steps, after the overwhelming rejection of her Brexit plan earlier this month, and have been proposing amendments seeking to shape the future direction of Brexit. Analysts expect sterling to remain volatile. Britain is set to leave the EU on March 29, but the country's members of parliament remain far from agreeing a divorce deal.

Turkey's lira weakened by nearly half a% on Tuesday, a day before the central bank's inflation report and amid concerns that inflation will rise in the first quarter on the back of food prices. Turkey's lira weakened by nearly half a% on Tuesday, a day before the central bank's inflation report and amid concerns that inflation will rise in the first quarter on the back of food prices. The lira stood at 5.35 to the US dollar from Monday's close of 5.3231. Earlier it had reached 5.3540, its weakest in about a week.

Oil prices crept up on Tuesday after Washington imposed sanctions on Venezuelan state-owned oil firm PDVSA in a step set to severely curb the OPEC member's crude exports to the US.

	LAST	1D	YTD
CURRENCIES			
DXY	95.718	-0.03%	-0.47%
EUR/\$	1.1437	0.08%	-0.26%
GBP/\$	1.3152	-0.08%	3.12%
AUD /\$	0.7166	0.00%	1.66%
NZD/\$	0.6850	0.29%	1.95%
\$/JPY	109.28	0.06%	0.38%
\$/CAD	1.3250	0.09%	2.92%
\$/CHF	0.9919	-0.01%	-0.99%
\$/SEK	9.0513	0.04%	-2.19%
\$/NOK	8.4992	0.14%	1.67%
\$/DKK	6.5277	0.07%	-0.25%
\$/TRY	5.3503	-0.44%	-1.14%
EUR/GBP	0.8696	-0.15%	3.38%
EUR/JPY	124.98	-0.02%	0.68%
EUR/CHF	1.1344	-0.07%	-0.79%
COMMODITIES			
Gold Spot \$/Oz	1306.20	0.22%	1.85%
Silver Spot \$/Oz	15.83	0.55%	2.17%
Platinum Spot \$/Oz	814.92	0.35%	2.42%
Palladium Spot \$/Oz	1333.50	-0.02%	5.68%
COPPER \$/lb	269.65	0.62%	2.49%
WTI \$/bbl	52.23	0.46%	15.02%
BRENT \$/bbl	60.13	0.33%	11.77%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
USD	16:00	S&P/CS Composite HPI YoY	5.00%	5.00%
USD	17:00	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 stumbled on Tuesday and the dollar hovered near two-week lows as prospects for a long-awaited Sino-US trade deal were dealt another blow after the US leveled sweeping criminal charges against China's telecom giant Huawei. In Asia, the losses were led by Australia and New Zealand, with their benchmark indices down 0.5% and 1.2% respectively. Chinese shares opened in the red, then recovered in the afternoon. Shanghai's SSE Composite was up 0.1% while the blue-chip index climbed 0.4%. Overall, MSCI's broadest index of Asia-Pacific shares outside Japan was still down 0.2% even after recouping some of its earlier losses. Japan's Nikkei, down about 1% almost all day, turned around to end 0.1% higher. Despite the late uptick in share prices, the mood was still gloomy after the US Justice Department unsealed indictments against China's top telecom equipment maker, Huawei Technologies Co Ltd, accusing it of bank and wire fraud to evade Iran sanctions and conspiring to steal trade secrets from T-Mobile US Inc.

US stocks tumbled on Monday after warnings from Caterpillar Inc and Nvidia Corp added to concerns about a slowing Chinese economy and tariffs taking a bite out of US corporate profits. Shares of Caterpillar, the world's largest heavy equipment maker, fell 9.13% and had their worst day since 2011 after the company's quarterly profit widely missed Wall Street estimates, hit by softening demand in China and higher manufacturing and freight costs. Caterpillar's drop accounted for nearly a third of the Dow's fall, and the S&P industrial index dropped 1.0%. Nvidia tumbled 13.82% after the chipmaker cut its Q4 revenue estimate by half a billion dollars on weak demand for its gaming chips in China and lower-than-expected data center sales. The Philadelphia semiconductor index slumped 2.09%, while the S&P technology index dropped 1.40%. Also hurting global investor sentiment, China data showed earnings at industrial companies shrank for a second straight month in December, hit by slowing prices and weak factory activity amid a protracted trade war with the US. As signs of a slowdown in the world's second-largest economy become stark, investors are pinning their hopes for a compromise between Washington and Beijing on trade when officials meet on Wednesday and Thursday. Although earnings have largely surpassed Wall Street's expectations, helping the S&P 500 climb about 12% from its December lows, worries about slowing global growth have tempered expectations. Since the reporting season began two weeks ago, analysts' estimates for Q4 profit growth have stayed steady at about 14%, but expectations for 2019 earnings growth have dropped to 5.6% from 6.3%. Nine of the 11 major S&P sector indexes fell. Amazon.com Inc and Microsoft Corp each dropped nearly 2%, while Apple shares declined almost 1%, dragging down the S&P 500 and the Nasdaq. All three are set to report later this week. The S&P energy index dropped 1.03% as oil prices fell after US companies added rigs for the first time this year, a signal that crude output may rise further. Amgen Inc fell 3.43%, weighing the most on the Nasdaq Biotech index, after Evercore ISI downgraded its stock, citing heightened competition for its arthritis drug.

Most Gulf stock markets ended higher yesterday. Saudi index rose sharply on Monday to a three- and-a-half year high boosted by blue-chip bank shares. Dubai was buoyed by financials and real estate stocks. Saudi Arabia's index rose 1.4% to its highest since Aug. 2015, with Al Rajhi Bank adding 2.2% and Riyadh Bank increasing 4.2%.

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Abu Dhabi	5051.07	0.61%	2.66%
Dubai	2570.94	1.23%	0.78%
Qatar	10704.73	0.34%	3.67%
Oman	4159.94	-0.15%	-3.75%
Egypt	13911.34	0.68%	6.72%
Kuwait	5394.20	-0.58%	2.83%
Bahrain	1379.27	-0.84%	3.21%
10-YEAR BONDS			
U.S.	2.7349	-0.0091	0.0507
Germany	0.2100	0.0050	-0.0320
U.K.	1.2650	-0.0400	-0.0120
France	0.6130	0.0050	-0.0970
Australia	2.2310	0.0200	-0.0870
Japan	0.0060	0.0040	0.0030

Major Company News

- Venture capital-backed financial technology companies raised a record \$39.57 billion from investors globally in 2018, up 120% from the previous year, according to research by data provider CB Insights published on Tuesday.
- Mexico's finance ministry said on Monday that it will implement measures to strengthen the finances and boost the production of state oil firm Pemex, specifically by increasing the limit on deductions for costs related to extraction and exploration.
- The California Public Utilities Commission on Monday approved a plan by power provider PG&E Corp to seek up to \$6 billion in debtor-in-possession financing for its expected bankruptcy.
- Apple Inc said on Monday it will issue a software patch later this week for a bug that lets iPhone users hear audio from users who have not yet accepted a video call.
- CITIC Capital, the flagship investment arm of Chinese financial conglomerate CITIC Group, is raising a new \$2 billion-plus fund to bolster its ability to do more deals, its CEO said on Wednesday.
- The US Federal Trade Commission said on Monday it had approved with conditions the proposed \$482.7 million merger of office supply distributors Staples Inc and Essendant Inc.
- US House panels will hold a joint hearing on Feb. 13 on T-Mobile US Inc and Sprint Corp's proposed \$26 billion merger and its potential impact on consumers.
- Mitsubishi Aircraft Corp on Monday accused Bombardier Inc of using "anticompetitive conduct" to limit competition for planes with under 100 seats, as the Japanese company works to bring its long-delayed regional jet to market.
- Japanese airline ANA Holdings Inc is set to order 18 Airbus SE A320neo jets, a source familiar with the matter said on Tuesday.



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TOP SELECTED NEWS

Potential global cyber attack could cause \$85 bn-\$193 bn

(Reuters) A co-ordinated global cyber attack, spread through malicious email, could cause economic damages anywhere between \$85 billion and \$193 billion, a hypothetical scenario developed as a stress test for risk management showed. Insurance claims after such an attack would range from business interruption and cyber extortion to incident response costs, the report jointly produced by insurance market Lloyd's of London and Aon said on Tuesday. Total claims paid by the insurance sector in this scenario is estimated to be between \$10 billion and \$27 billion, based on policy limits ranging from \$500,000 to \$200 million. The stark difference between insured and economic loss estimates highlights the extent of underinsurance, in case of such an attack, the stress test showed. An attack could affect several sectors globally, with the largest losses in retail, healthcare, manufacturing and banking fields. Regional economies that are more service dominated, especially the US and Europe, would suffer more and are vulnerable to higher direct losses, the report said.

UK leaves fate of Venezuela's gold up to the BoE

(Bloomberg) The UK government said it is up to the Bank of England to decide what to do with the "significant amount" of gold it is holding under contract for the embattled Venezuelan regime of Nicolas Maduro. "This is a decision for the Bank of England, not for government," Foreign Office Minister Alan Duncan told Parliament Monday during an urgent question on Venezuela. "It is they who have to make a decision on this, but no doubt they will take into account when they do so, that a large number of countries across the world are now questioning the legitimacy of Nicolas Maduro." The Bank of England holds about \$1.2 billion worth of gold for Venezuela, a significant chunk of the \$8 billion in foreign reserves held by the nation's central bank. That's put the British regulator at the center of the growing international opposition to Maduro's government.

US sanctions threaten Venezuela's economy

(Reuters) Venezuelans braced for the deepening of a brutal economic crisis on Tuesday after the US imposed sanctions sharply curbing the country's vital oil exports, while the socialist government responded by refusing to load crude cargoes without payment. The Trump administration hopes the sanctions, which bar state-owned oil company Petroleos de Venezuela from collecting proceeds from crude sales to US refineries, pressure President Nicolas Maduro to step down and allow opposition leader and self-proclaimed president Juan Guaido to call elections. In a defiant national broadcast on Monday night, Maduro said he would take legal action to challenge the sanctions and defend Citgo Petroleum Corp, PDVSA's US refining subsidiary, which he accused the US of trying to steal. He also pledged to retaliate, but did not announce any specific measures. "We will provide the reciprocal and convincing response needed to defend Venezuela's interests in due time," Maduro said. PDVSA responded to the sanctions by ordering customers with tankers waiting to load crude destined for the US to prepay, according to three sources with knowledge of the decision. Such prepayment could be in violation of the sanctions, setting the stage for a standoff at the ports. The loss of revenue from the

US, the No. 1 buyer of Venezuelan crude, was sure to further hamper the government's ability to import basic goods like food and medicine, exacerbating a humanitarian crisis that has prompted more than 3 million people to flee the hyperinflation-stricken country in recent years.

Deutsche, UBS 'hung deal' to face fraud at ConvergenceOne

(Bloomberg) A 2-month struggle by Deutsche Bank AG and UBS Group to offload \$1.2 billion of buyout loans has hit a new roadblock: suspected employee fraud at the company that went private, according to people with knowledge of the matter. ConvergenceOne, acquired by CVC Capital Partners earlier this month after the banks funded the deal, is facing an \$11 million inventory write-down after discovering an employee may have committed fraud, the people said, asking not to be identified because the information hasn't been made public. The ConvergenceOne financing was already the biggest of a pile of so-called "hung deals" that banks were having trouble selling to investors in recent weeks after market volatility in December. But much of that backlog has been clearing as lenders offered discounts and improved terms. Investors are likely now angling for even steeper discounts on the ConvergenceOne debt, the people said, which could trigger losses for the banks. Deutsche, UBS & CVC declined to comment.

Deutsche Telekom to warn Huawei ban would hurt EU 5G

(Bloomberg) Europe would fall behind the US and China in the race to install the next generation of wireless networks if governments ban Chinese equipment supplier Huawei Technologies Co. over security fears, according to an internal assessment by Deutsche Telekom AG. Officials at Europe's largest telecommunications company have warned that removing Huawei from the list of suppliers of fifth-generation networks would delay roll-out of the technology by at least two years, said people familiar with a briefing paper written in recent weeks. The people asked not to be identified because the findings are confidential. A Bonn-based Deutsche Telekom spokesman declined to comment.

Saudi signs \$54.4 bln of deals, offers incentives

(Reuters) Saudi Arabia said on Monday it had signed agreements worth 204 billion riyals (\$54.4 billion) and offered fresh incentives to attract capital as part of a 10-year programme that would help diversify the economy of the world's top oil exporter. The kingdom is offering investment opportunities in mining, industry, logistics and energy through its National Industrial Development and Logistics Program (NIDLP). That is part of an economic plan launched by Crown Prince Mohammed bin Salman in 2016 to end dependence on hydrocarbons and create jobs for young Saudis. NIDLP aims to boost the contribution of these sectors to \$320 billion by 2030 to GDP, stimulate investments worth more than \$426 billion, and increase the volume of non-oil exports to over \$260 billion within an unspecified time period. It also wants to generate 1.6 million new jobs. "The programme will be an outstanding achievement within the economic diversification process led by your royal highness," Energy Minister Khalid al-Falih said at a day-long event where Prince Mohammed made a brief appearance. "Those who bet on Saudi Arabia will not lose while your royal highness is steering."



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