

GLOBAL MARKETS

Wednesday, January 30, 2019

Markets in brief

- British pound recovered just a little ground after the previous day's sharp fall as British lawmakers rejected most amendments that sought to avoid Britain exiting the EU without a deal, reviving worries of a chaotic withdrawal from the EU.
- Australian dollar advanced as inflation beat estimates, easing concerns of an RBA rate cut. The currency also benefited from a price surge in iron ore, a key export, as Brazil's Vale outlined plans to cut output.
- U.S. dollar investors cautiously awaited Fed's policy decision at 21:00 LT, that will be followed up by a press conference at 21:30 LT. ADP Nonfarm employment would also be under watch at 15:15 LT.
- Oil prices rose on potential supply disruptions in Venezuela.
- U.S. stocks ended mixed. Tech shares retreated while industrials helped the Dow.

May to reopen Brexit deal ... EU said No

British PM Theresa May promised to renegotiate the most contentious part of her Brexit deal after it was ripped up by Parliament. She will now head to Brussels to face a European Union that's already warned it won't even consider her demands, with the threat of economic chaos still looming over her country. The EU said the deal isn't open to more negotiation. The bloc did say it stands ready to consider a delay — an option rejected by MPs. Sterling's losses were limited, possibly on notions a delay is inevitable.

Iron ore surging after Vale's output cut

Iron ore jumped the most in two years on Wednesday as the world's biggest miner said it would close some of its operations following last week's fatal dam disaster in Brazil, which has killed at least 84 people and left hundreds missing. While Vale SA said it will make up for lost output by increasing production from other mines, the potential disruption to about 2.5 percent of world supply shook markets, from the share prices of rival miners to the Aussie dollar. One of the world's bellwether commodities, iron ore is the primary ingredient of steel, the ubiquitous alloy used in everything from skyscrapers to razor blades. Australia and Brazil produce almost all of it and China buys more than anyone else. Supply disruptions can have far-reaching consequences.

What signals will the Fed send today?

As they conclude their latest two-day policy meeting today, Fed policymakers will have to decide how big a risk all of that poses to the near-decade-long U.S. economic expansion. In the six weeks since a confident Fed raised interest rates in response to a "strong" U.S. economy, consumer confidence dropped, wholesale prices weakened, financial markets wobbled and home sales fell. Further afield, China tried to boost lending for its slowing economy, the ECB acknowledged ebbing growth in the euro zone, and the IMF cut its world economic growth forecast and warned that global trade had nosedived as major nations squabbled about tariffs. The task of policy makers is made more difficult by the delayed release of key economic data due to the recent 35-day partial shutdown of the U.S. government, including important reports on retail sales and GDP. Pricing of fed funds futures implies an expectation for no hikes in 2019.

ECB's Eurozone inflation gauge lowest since 2016

A key gauge of the market's long-term expectations for inflation in the euro area fell on Tuesday to its lowest level since late 2016, in a further sign that weak economic data globally is weighing on the inflation outlook. The euro zone economy has performed worse than expected in recent months and global uncertainty is weighing on economic sentiment, ECB President Mario Draghi said on Monday, repeating the bank's recent warnings about growth. Highlighting investor concern that the ECB will struggle to achieve its near 2% inflation target, inflation expectations in the bloc have fallen sharply since early November.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1430	-0.03%
GBP/\$	1.3084	0.14%
AUD/\$	0.7192	0.52%
NZD/\$	0.6847	0.19%
\$/JPY	109.28	0.11%
\$/CAD	1.3259	0.08%
\$/CHF	0.9957	-0.11%
Gold \$	1314.34	0.19%
Silver \$	15.94	0.63%
Platinum \$	815.98	0.22%
WTI \$	53.29	-0.04%
BRENT \$	61.37	0.08%
AMERICA		
DOW JONES	24579.96	0.21%
S&P 500	2640.00	-0.15%
NASDAQ	7028.29	-0.81%
EUROPE		
STXE 600	357.23	0.80%
CAC 40	4928.18	0.81%
DAX	11218.83	0.08%
ASIA PACIFIC		
S&P/ASX 200	5886.70	0.21%
NIKKEI 225	20556.54	-0.52%
CSI 300 (China)	3167.89	-0.82%
MENA		
Saudi Arabia	8581.48	-0.49%
Dubai	2566.10	-0.19%
Qatar	10722.49	0.17%
BONDS		
U.S. 10-year	2.7169	0.0001
German Bund 10-year	0.1980	0.0000
AU 10-year	2.2410	0.0001
BEIRUT S.E.		
SOLIDERE - A	6.44	0.78%
SOLIDERE - B	6.14	-0.65%
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	-

FX & COMMODITIES

The British pound tried to find its footing on Wednesday after sliding on fresh concerns about the possibility of a “no-deal” Brexit, while the dollar eased ahead of the Fed’s policy decision. Sterling staggered up 0.14% to \$1.3084 after suffering a loss of 0.7% overnight as lawmakers rejected a proposal to give parliament a path to prevent a potentially chaotic hard exit. Britain is due to leave the EU on March 29. Last week, the pound hit \$1.3218, its highest since mid-October, on hopes that London might avoid a no-deal departure from the EU. Against the pound the euro was higher at 87.36 pence having surged 0.8% on Tuesday. The single currency was steady at \$1.1430 after brushing a two-week high of \$1.1450 overnight.

US dollar investors would be closely watching the Fed that will end a two-day policy meeting at which it is expected to leave interest rates unchanged, after raising them four times last year. Markets are closely awaiting the Fed’s policy outlook after recent comments from officials signalled a slower pace of rate increases this year amid mounting uncertainties over the health of the US and global economies and shaky financial markets. Traders are pricing in only a slight chance of one rate increase for 2019 as a whole, though most economists polled by Reuters last week still expect two, in the second and fourth quarters. Markets were also focused on US-Sino trade talks in Washington on Wednesday and Thursday, while the closely-watched US jobs report will be released on Friday. Any escalation in the US-China trade war would trigger a sharper downturn in the global economy, according to the Reuters poll last week. While China has offered to buy more US products, sources say the two sides remain far apart on key structural issues, and Washington has threatened to hike tariffs if no solid progress is made before an early March deadline. The dollar index against a basket of six major currencies traded flat following a slip to a two-week low of 95.620 overnight after US Treasury yields declined ahead of the Fed’s statement. The greenback edged down 0.11% to 109.28 yen, handing back the previous day’s modest gains.

The Australian dollar was up 0.52% at \$0.7192, lifted after the country’s consumer prices beat expectations last quarter. Australia’s consumer price index (CPI) rose 0.5% in September-December, surpassing forecasts for a 0.4% increase. A further sharp rise in iron ore prices also boosted the Aussie.

China’s yuan extended its gains and advanced to 6.7135 per dollar in onshore trade, its strongest mid-July 2018. The yuan has gained more than 2% versus the dollar so far in January, helped by optimism over US-China trade negotiations and a dovish-sounding Fed which has curtailed the US currency’s strength.

Oil prices rose on Wednesday as concerns about supply disruptions following US sanctions on Venezuela’s oil industry outweighed pressure from a darkening outlook for the global economy. Washington on Monday announced export sanctions against state-owned oil firm Petroleos de Venezuela SA (PDVSA), limiting transactions between US companies that do business with Venezuela’s state-owned oil firm PDVSA.

	LAST	1D	YTD
CURRENCIES			
DXY	95.782	-0.04%	-0.41%
EUR/\$	1.1430	-0.03%	-0.32%
GBP/\$	1.3084	0.14%	2.59%
AUD /\$	0.7192	0.52%	2.03%
NZD/\$	0.6847	0.19%	1.91%
\$/JPY	109.28	0.11%	0.38%
\$/CAD	1.3259	0.08%	2.85%
\$/CHF	0.9957	-0.11%	-1.37%
\$/SEK	9.0627	0.06%	-2.31%
\$/NOK	8.4940	0.05%	1.73%
\$/DKK	6.5310	-0.02%	-0.30%
\$/TRY	5.3204	-0.20%	-0.58%
EUR/GBP	0.8736	0.16%	2.91%
EUR/JPY	124.90	0.14%	0.74%
EUR/CHF	1.1380	-0.09%	-1.10%
COMMODITIES			
Gold Spot \$/Oz	1314.34	0.19%	2.48%
Silver Spot \$/Oz	15.94	0.63%	2.86%
Platinum Spot \$/Oz	815.98	0.22%	2.56%
Palladium Spot \$/Oz	1346.48	0.24%	6.71%
COPPER \$/lb	272.55	0.02%	3.59%
WTI \$/bbl	53.29	-0.04%	17.35%
BRENT \$/bbl	61.37	0.08%	14.07%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
USD	15:15	ADP Nonfarm Employment	180k	271k
OIL	17:30	EIA Weekly Report		
USD	21:00	Fed Decision	2.50%	2.50%
USD	21:30	Fed 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 equities steadied on Wednesday as investors awaited Fed policy guidance and the outcome of high level trade talks between the US and China, while drawing relief from Apple Inc's earnings. Spread-bettors expect London's FTSE and Paris's CAC to respectively rise 0.4% and 0.1% when they open, while forecasting a small loss for Frankfurt's DAX. MSCI's broadest index of Asia-Pacific shares outside Japan tacked on 0.3%, booking its first gain of the week. South Korea's KOSPI added nearly 1.1%. China's benchmark Shanghai Composite and Japan's Nikkei bucked the trend, each slipping about half a%. US S&P 500 e-mini futures were little changed. They had traded much of the session slightly in positive territory after Apple shares rose 5.7% after the bell as the iPhone maker reported sharp growth in its services business.

US stocks were mixed on Tuesday, with Alphabet, Facebook and other technology-related shares dipping, while a rebound in 3M and other industrials elevated the Dow Jones Industrial Average. Apple Inc jumped 4% in extended trade after the iPhone maker posted quarterly results following its warning earlier this month that revenue would be less than previously expected due to softness in China, whose economy has been damaged by a trade war with the US. Apple's stock had fallen 1.04% during the trading session, and its rebound after the bell helped push S&P 500 futures up 0.2%, suggesting Wall Street could open in positive territory on Wednesday. Interest rates were also in focus as the Fed began a two-day monetary policy meeting. After raising rates gradually last year, the central bank is taking a wait-and-see approach to further tightening in the face of an overseas slowdown and market volatility. The Fed is widely expected to leave rates unchanged on Wednesday, and investors will look to Friday's January jobs report for clues about the pace of future inflation. The S&P industrials index, which took a beating after a warning from Caterpillar on Monday, rebounded 1.37%, helped by better-than-expected reports from 3M Co and defense companies. Amazon.com Inc, Facebook Inc and Microsoft Corp, which are all due to report quarterly results later this week, fell more than 2% each. The S&P technology index lost 1.01%. Analysts on average expect S&P 500 companies' aggregate earnings per share to have risen 14.2% in Q4. But with US corporate tax cuts now a year old, 2019 earnings are seen rising a more moderate 5.6%. As Washington and Beijing officials prepare for a high-level trade meeting this week, the Justice Department leveled charges against Chinese telecom giant Huawei, potentially casting a cloud on the talks. Defense contractors L3 Technologies Inc jumped 8.44% and Harris Corp climbed 8.78% after topping quarterly earnings estimates. 3M rose 1.94% after its Q4 results beat estimates, even as the Post-It notes maker trimmed its 2019 earnings outlook, saying that a slowdown at its Chinese business was hurting revenue. Harley-Davidson Inc dropped 5.05% after the motorcycle maker reported a lower-than-expected quarterly profit, hit by declining sales in the US. Allergan Plc fell 8.55% after the Botox maker forecast 2019 revenue below expectations.

Gulf stock markets were mixed yesterday amid subdued market sentiment tracking weak global markets. Saudi index fell as most of its bank shares dropped. Egypt's blue-chip index gained, partly helped by Global Telecom on the prospect of it going private.

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EUROPE			
STXE 600	357.23	0.80%	5.80%
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MENA			
Saudi Arabia	8581.48	-0.49%	9.64%
Abu Dhabi	5033.05	-0.36%	2.18%
Dubai	2566.10	-0.19%	1.42%
Qatar	10722.49	0.17%	4.04%
Oman	4172.36	0.30%	-2.58%
Egypt	13976.52	0.47%	7.22%
Kuwait	5415.08	0.39%	3.00%
Bahrain	1385.80	0.47%	3.94%
10-YEAR BONDS			
U.S.	2.7169	0.0071	0.0327
Germany	0.1980	-0.0020	-0.0440
U.K.	1.2690	0.0040	-0.0080
France	0.6100	-0.0010	-0.1000
Australia	2.2410	0.0090	-0.0770
Japan	0.0030	-0.0060	0.0000

Major Company News

- Advanced Micro Devices swung to a profit in Q4 even as sales missed, but the semiconductor maker's upbeat full-year revenue outlook was cheered by investors who had come to fear weak performance for chipmakers following warnings from Intel and Nvidia.
- Ebay on Tuesday said it would introduce a dividend and increase share buybacks following pressure from activist investors.
- Royal Mail Plc reined in its full-year profit forecast on Tuesday and spoke of a larger than expected decline in letter volumes, sending its shares down as much as 18% to a record low.
- SAP will take a restructuring charge of up to 950 million euros (\$1 billion) to reshape its business after growth slowed in parts of the software maker over the last three months.
- Wind turbine maker Siemens Gamesa forecast better profitability and said prices were stabilizing on Tuesday, sending its shares as much as 9% higher.
- Dubai Investments Park (DIP), a subsidiary of Dubai Investments, has postponed its planned issue of U.S. dollar-denominated sukuk, or Islamic bonds, saying more attractive funding alternatives were available.
- Volkswagen Group has held on to its position as the world's top-selling automaker for the fifth year in a row, although the German group was edged out again by the Renault-Nissan-Mitsubishi alliance in the light-duty vehicles segment.
- Fund manager Janus Henderson is closing down its three Australian equities funds due to tough fund-raising conditions, and will return nearly A\$490 million (\$352.65 million) to investors, a company spokeswoman said on Wednesday.

TOP SELECTED NEWS

Brexit will probably split BOE policy makers

(Bloomberg) Don't be fooled by the Bank of England's recent unanimity -- the debate will become more heated. While Brexit has split Britain down the middle, policy makers have voted 9-0 on interest rates for the past four meetings and generally stayed quiet on the outlook as the UK's impending divorce from the EU becomes more fraught. Governor Mark Carney and his colleagues have stuck rigorously to script, saying that interest rates could move in either direction, depending on what form Brexit takes. Yet that ambiguity could be masking a deeper debate among officials, potentially setting the stage for the first three-way split in policy votes since the financial crisis. If the UK leaves the EU with no deal in place, the most difficult task would be to disentangle the myriad effects on the economy, from fresh barriers to trade to further hits to productivity and investment. Carney has even said a no-deal outcome, the most disastrous economically, could actually force the bank to raise rates. Hawkish members of the Monetary Policy Committee such as Michael Saunders and Andy Haldane are getting increasingly agitated about wage growth -- at the strongest level since the financial crisis -- meaning they could be pushed for hikes quickly.

French consumer confidence rebounds after slump

(Reuters) French consumer confidence levels rebounded in January from a slump in the previous month, though they remained well below average as the euro zone's second-biggest economy grapples with the impact of anti-government protests. The INSEE national statistics agency said consumer confidence in January rose to 91 points from 86 in December, which had marked the lowest level since October, 2014. Fifteen economists polled by Reuters forecast 88 points for the January level. INSEE said there had been a pick-up among consumers who felt it was a good time to buy products, as French department stores held their New Year sales. Nevertheless, INSEE said January's consumer confidence level remained below the long-term average of 100 points. Others were also wary of the near-term outlook for the French economy, given the damage caused by the "yellow vests" - named after the high-visibility jackets all French motorists carry in their cars. The "yellow vest" demonstrators on Saturday carried out their 11th consecutive weekend of protests, resulting in sporadic clashes with police across the country.

Japan December retail sales up

(Reuters) Japan's retail sales rose more than expected in December as consumers increased spending on clothes and home appliances, which may ease some concern about the outlook for private consumption at a time of growing pressure on the economy. The 1.3% rise in retail sales in December from a year earlier was more than the median estimate for a 0.8% annual increase and followed a 1.4% gain in November. Retail sales are a key barometer of the strength of private consumption, which accounts for roughly 60% of the Japanese economy. December's sales boost was driven by annual spending increases of 4.1% on clothes and 4.4% on appliances, data from the Ministry of Economy, Trade and Industry showed on Wednesday. Further strength in spending would ease policymakers' concerns about the impact on

consumption from a sales tax increase scheduled for October this year. A sustained rebound in private consumption is far from assured given a slowing global economy and an unresolved trade dispute between China and the United States - Japan's biggest trading partners.

Snapchat weighs "permanent snaps"

(Reuters) Snap Inc is considering changes to its Snapchat app, known for disappearing photos and videos, that could make users' public posts longer lasting or even permanent, people familiar with the matter said. The company is also weighing an option to reveal the identities of Snapchat users who make public posts, a person familiar with Snap's plans said. Together the changes would mark a big step in Snap's effort to lure and keep users by making content shared publicly via the "Our Story" section, more available outside Snapchat. They could also create a new revenue source for money-losing Snap, which has seen its user base shrink and executives flee the company. But such changes to Snapchat, which launched in 2011 and became an instant hit among teenagers and millennials, could trigger backlash from users who cherish their privacy, especially as rival Facebook Inc has been plagued by scandals over how it handles user data. Snap is carefully weighing the privacy, technical and legal considerations of revealing user identities on public posts, said the person familiar with Snap's plans.

Apple shares rally as company outlines life beyond iPhone

(Bloomberg) Apple Inc. convinced investors that life beyond the iPhone won't be so bad, sparking a relief rally in the stock. The Cupertino, California-based company reported its first holiday-quarter sales decline since 2001 as revenue from the iconic handset tumbled 15%. But Chief Executive Officer Tim Cook and Chief Financial Officer Luca Maestri focused on a growing services business and rising sales of other devices. Mac revenue grew 9%, while iPad sales climbed 17%. The company's Wearables business, which includes the Apple Watch and AirPods, surged 50%. On services, the Apple executives pointed to increased usage of Apple Pay and Apple Music. They also made a new prediction: The number of subscriptions will top half a billion by 2020, up from 360 million now. Without getting into detail, Cook suggested Apple will get further into the original video content business. Apple shares rose 5.5% in extended trading on Tuesday. The company had lost about a third of its market value since October as investors adjusted to the reality of a saturated smartphone market and the end of growth for Apple's most-important product.

SocGen said to plan investment bank job cuts

(Bloomberg) Societe Generale SA is planning jobs cuts at its investment bank to drive down costs after a trading slump in Q4, according to people with knowledge of the matter. The French bank is seeking to trim expenses by at least 100 million euros (\$114 million) annually and potentially by a much higher amount, with cuts focused on its global banking and investor solutions unit, the people said, declining to be identified because the matter is private. The plans -- including the extent of the cuts -- may be made public as soon as next week, they said. SocGen is seeking to bolster profitability after warning last month that revenue at its key global-markets business slumped about 20% in Q4 of the year because of reduced client activity.



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