

GLOBAL MARKETS

Tuesday, December 04, 2018

Markets in brief

- U.S. Treasury yield curve came very close to inversion, which is considered an indicator for an upcoming recession.
- The spread between 3- and 5-year yields fell to negative 1.4 bps Monday, dropping below zero for the first time since 2007. 2- and 10-year yields spread will be closely watched.
- The U.S. dollar weakened against, undermined by a decline in Treasury yields across the curve.
- An advance in the Chinese yuan drove gains in the trade-dependent currencies of Australia and New Zealand.
- Spot Gold hits 5-week high on a weaker dollar.
- Oil prices remained firm amid expected OPEC-led supply cuts.
- Asian shares dropped today as traders were still unsure about the U.S.-China truce.
- U.S. stocks rallied yesterday after trade optimism lifted market risk appetite.

May facing debate over Brexit

Theresa May's attempt to sell her Brexit deal to skeptical MPs was torpedoed before it began. Opposition parties were granted an emergency debate on whether her government is in contempt of Parliament for refusing to release legal advice underpinning her deal. That will push back the start of the PM's debate until later today, illustrating the challenges she faces.

U.S.-China trade pact ... clarified

A day after Donald Trump tweeted about his trade agreement with Xi Jinping, his top advisers struggled to explain the deal's details. This underscored the risk of the U.S. president's eagerness to strike deals without nailing down details in advance. Top economic adviser Larry Kudlow dialed back expectations, calling them "commitments" and saying that's "not necessarily a trade deal, but it's stuff that they're going to look at and presumably implement."

France ... Tax cuts?

France may introduce emergency tax cuts to quell violent protests. Finance Minister Bruno Le Maire left a meeting of finance ministers in Brussels to return to Paris for crisis talks with Emmanuel Macron and other colleagues. "If we need to cut spending faster to be able to cut taxes faster for households and businesses, I'm ready to commit to this course," Le Maire said.

EU planning to challenge dollar dominance

The European Commission is set to unveil plans for challenging the dollar's dominance in global markets as a widening rift in transatlantic ties leaves the bloc exposed. It'll propose using the euro as default currency in energy contracts agreed between EU states and third countries, documents seen by Bloomberg show.

FX & COMMODITIES	LAST	1D
EUR/\$	1.1386	0.28%
GBP/\$	1.2741	0.13%
AUD /\$	0.7379	0.29%
NZD/\$	0.6957	0.43%
\$/JPY	113.06	0.53%
\$/CAD	1.3176	0.16%
\$/CHF	0.9961	0.14%
Gold \$	1237.48	0.55%
Silver \$	14.50	0.81%
Platinum \$	805.00	-0.33%
WTI \$	53.50	1.04%
BRENT \$	62.25	0.91%
AMERICA		
DOW JONES	25826.43	1.13%
S&P 500	2790.37	1.09%
NASDAQ	7441.51	1.51%
EUROPE		
STXE 600	361.18	1.03%
CAC 40	5053.98	1.00%
DAX	11465.46	1.85%
ASIA PACIFIC		
S&P/ASX 200	5713.14	-1.01%
NIKKEI 225	22036.05	-2.39%
CSI 300 (China)	3263.00	0.06%
MENA		
Saudi Arabia	7916.79	0.91%
Dubai	2668.66	-0.61%
Qatar	10451.33	1.30%
BONDS		
U.S. 10-year	2.9497	-0.0002
German Bund 10-year	0.3060	-0.0001
AU 10-year	2.5310	-0.0008
BEIRUT S.E.		
SOLIDERE - A	6.43	-6.27%
SOLIDERE - B	6.51	-4.41%
BANK OF BEIRUT	18.80	-
BANK AUDI SAL	5.02	-
BLOM BANK	9.27	0.22%
BYBLOS BANK	1.41	-
BLC BANK SAL	0.93	-
BANQUE BEMO SAL	1.57	-

FX & COMMODITIES

The US dollar weakened on Tuesday as US Treasury yields fell to 3-month lows, with investors fretting over a possible pause in the Fed's rate-hike cycle and portents of recession seen in a yield curve inversion. The US 10-year Treasury yield fell to 2.94% on Tuesday, its lowest level since mid-September. The difference in yield between the US 2-year and 10-year tightened to its smallest since July 2007. The curve between 3-year and 5-year notes inverted for the first time since 2007 on Monday and was last at minus 1.2 basis points. The 2-year and 10-year yield curve is a key focus for investors as an inversion is seen as predictor of a US recession. A yield curve is said to be inverted when yields on longer-dated maturity bonds are lower than shorter-dated bonds. The yield curve has flattened as continuing interest rate hikes send short-dated yields higher, while longer-dated Treasury yields are kept down by tepid inflation and slowing global growth. The dollar index, a gauge of its value versus six major peers, was off 0.33% at 96.720. The weakness in the dollar comes against the backdrop of a temporary truce in the US-China trade conflict, which has bolstered investor confidence in riskier currencies versus the safe-haven greenback. The dollar had been supported for most of 2018 by a robust US economy and a relatively hawkish Fed, which is widely expected to raise its policy interest rate later this month. Markets have priced in an 87% probability of a rate hike at the Fed's Dec. 18-19 meeting. The dollar came under pressure last week when the market took comments from Fed Chair Powell as signaling a slower pace of rate hikes. A more dovish tone from the Fed last week has led markets to question how many times the central bank will hike rates in 2019. Currencies such as the Chinese yuan, which were battered in the US-China trade war, are expected to trade stronger versus the greenback in the coming weeks as investor sentiment improves. The dollar fell 0.5% against the offshore yuan to 6.8375. On Monday, it lost 1.07%, its steepest %age fall since Aug. 25. However, he warned that markets need to see a further easing in trade tensions for the risk-on rally to continue.

The Australian dollar benefited from the broad based dollar selling, gaining 0.29% at \$0.7379. The RBA kept its policy cash rate unchanged on Tuesday in a widely expected move.

British pound gained due to broad dollar weakness. On Monday, the pound fell below \$1.27 for the first time since Oct. 31. Sterling has posted losses for three consecutive weeks as traders bet that British Prime Minister Theresa May will not be able to pass her Brexit deal through parliament on Dec. 11.

Oil prices rose on Tuesday, extending bigger gains from the previous day amid expected OPEC-led supply cuts and a mandated reduction in Canadian output. Both crude benchmarks climbed by around 4% the previous session after Washington and Beijing agreed a truce in their trade disputes and said they would negotiate for 90 days before taking any further action. The Middle East-dominated OPEC will on Dec. 6 meet at its headquarters in Vienna, Austria, to agree a joint output policy. OPEC will also discuss policy with non-OPEC production giant Russia.

	LAST	1D	YTD
CURRENCIES			
DXY	96.720	-0.33%	4.99%
EUR/\$	1.1386	0.28%	-5.16%
GBP/\$	1.2741	0.13%	-5.71%
AUD /\$	0.7379	0.29%	-5.51%
NZD/\$	0.6957	0.43%	-1.99%
\$/JPY	113.06	0.53%	-0.33%
\$/CAD	1.3176	0.16%	-4.59%
\$/CHF	0.9961	0.14%	-2.19%
\$/SEK	8.9867	0.30%	-8.94%
\$/NOK	8.5027	0.29%	-3.51%
\$/DKK	6.5540	0.28%	-5.30%
\$/TRY	5.2455	0.09%	-27.59%
EUR/GBP	0.8936	-0.15%	-0.62%
EUR/JPY	128.73	0.23%	5.09%
EUR/CHF	1.1341	-0.09%	3.19%
COMMODITIES			
Gold Spot \$/Oz	1237.48	0.55%	-5.01%
Silver Spot \$/Oz	14.50	0.81%	-14.37%
Platinum Spot \$/Oz	805.00	-0.33%	-13.28%
Palladium Spot \$/Oz	1216.29	0.88%	14.36%
COPPER \$/lb	281.25	0.11%	-16.28%
WTI \$/bbl	53.50	1.04%	-11.45%
BRENT \$/bbl	62.25	0.91%	-6.91%

In focus today

	TIME (LT)	EVENT	FCAST	PRIOR
EUR		ECOFIN Meetings		
GBP	11:15	BoE Gov Carney speaks	51.6	51.1
EUR	12:00	Eurozone PPI MoM	0.50%	0.50%

Wednesday: AU GDP QoQ, Eurozone Services PMI, ECB Draghi speaks, UK Services PMI, US ISM Non-Manufacturing PMI, Fed Chair Powell testifies, Eurozone Retail Sales, US ADP Nonfarm Employment, BoC Policy Decision + Statement, Fed Beige Book

Thursday: AU Retail Sales, AU Trade Balance, OPEC Meetings, Canada Trade Balance, US Trade Balance, BoC Gov Poloz speaks Canada Ivey PMI

Friday: Fed Chair Powell speaks, UK Halifax HPI, US Consumer Sentiment, Canada Jobs Report, US Jobs Report

Saturday: China Trade Balance

Tuesday, December 04, 2018

STOCKS & BONDS

A section of the US Treasuries yield curve just inverted for the first time in more than a decade. The spread between 3- and 5-year yields fell to negative 1.4 basis points Monday, dropping below zero for the first time since 2007, and the 2- to 5-year gap soon followed. The 2- to 10-year is more closely watched as a potential indicator of pending recessions. But Monday's move could be the first signal that the market is putting the Federal Reserve on notice that the end of its tightening cycle is approaching. While the yields on shorter-maturities fell on Tuesday during Asian hours, the spread between 3-, 5-year yields remained stable. Longer-maturity bonds rallied sharply, flattening the long-end of the yield curve. The US 10-year slipped another 3 basis points to 2.94%, dropping below the 200-day moving average for the first time this year.

Asian shares fell on Tuesday as a relief rally petered out amid rising doubts over whether China and the US will be able to resolve trade differences. An inverted US yield curve also raised concerns about a possible recession. MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.3% as Chinese equity markets struggled to move out of negative territory.

US major indexes rallied on Monday following a truce between the US and China in their trade dispute, which has clouded the outlook for the stock market for much of the year. The benchmark S&P 500 climbed more than 1%, building off of its biggest weekly %age gain in nearly seven years a week ago. Investors were lifted by news over the weekend that Trump and Chinese President Xi Jinping agreed during talks in Argentina to hold off on new tariffs for 90 days, declaring a truce following months of escalating tensions on trade and other issues. Still, major indexes closed below their highs from earlier in the session. Last week, the S&P 500 gained 4.8% as investors interpreted commentary from the Fed as signaling that US interest rate hikes may be less aggressive than feared. The index rebounded after confirming its second 10% correction of the year, and is now up 4.4% in 2018. On Monday, the technology sector, among the groups seen as sensitive to trade tensions, gained 2.1%. Apple shares, recently hit by worries over possible tariffs on iPhones, gained 3.5%. Shares of Boeing and Caterpillar, two industrial companies viewed as trade bellwethers, gained 3.8% and 2.4%, respectively, and gave a lift to the blue-chip Dow. The industrial sector rose 1.2%. Energy shares rose 2.3% as oil prices bounced back from their recent swoon. Along with the US-China trade detente, oil got support as Canada's Alberta province ordered a production cut, while exporter group OPEC looked set to reduce supply. In corporate news, shares of Tesaro soared 58.5% after GlaxoSmithKline agreed to buy the US cancer specialist for \$5.1 billion. Tribune Media Co shares rose 11.7% after Nexstar Media Group Inc said it agreed to buy its Chicago-based peer for about \$4.1 billion. Nexstar shares rose 6.9%.

In the Gulf markets, Qatari index rose sharply on Monday and Saudi stocks gained, helped by a surge in oil prices, which boosted their banks and petrochemical stocks, while Egypt slumped to its lowest in a year.

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AMERICA			
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FTSE 100	7062.41	1.18%	-8.13%
CAC 40	5053.98	1.00%	-4.87%
DAX	11465.46	1.85%	-11.24%
ASIA PACIFIC			
S&P/ASX 200	5713.14	-1.01%	-5.80%
NIKKEI 225	22036.05	-2.39%	-3.20%
TOPIX	1649.20	-2.36%	-9.26%
CSI 300 (China)	3263.00	0.06%	-19.05%
MENA			
Saudi Arabia	7916.79	0.91%	9.55%
Abu Dhabi	4770.08	-2.27%	11.23%
Dubai	2668.66	-0.61%	-20.40%
Qatar	10451.33	1.30%	22.52%
Oman	4450.19	0.73%	-11.94%
Egypt	12934.44	-1.64%	-13.88%
Kuwait	5327.05	0.17%	11.15%
Bahrain	1325.93	-0.46%	-0.43%
10-YEAR BONDS			
U.S.	2.9497	-0.0200	0.5443
Germany	0.3060	-0.0070	-0.1210
U.K.	1.3130	-0.0510	0.1230
France	0.6940	0.0100	-0.0910
Australia	2.5310	-0.0840	-0.0990
Japan	0.0730	-0.0130	0.0250

Major Company News

- Unilever agreed to acquire GlaxoSmithKline's Indian consumer business, including malted milk drink Horlicks, for 3.3 billion euros to boost its footprint in one of the world's fastest-growing major economies.
- GlaxoSmithKline CEO Emma Walmsley bolstered a thin roster of new treatments by agreeing to buy drug-maker Tesaro for \$5.1 bn, gaining a foothold in the field of cancer for a price analysts deemed high.
- Marlboro cigarette maker Altria Group Inc is in discussions with Canadian cannabis producer Cronos Group Inc about making a possible investment, Cronos said on Monday.
- Singapore-based specialty retailer V3 Group Ltd said on Tuesday private equity firm KKR & Co will invest up to \$500 million (\$366.30 million) for a "significant stake" in the company.
- TIBCO Software Inc, a large privately-held business software provider, is acquiring French data management company Orchestra Networks in a move that will bolster its ability to help clients organize customer data (Reuters).
- US chipmaker Qualcomm Inc said on Monday it was not looking to revive its abandoned \$44 billion acquisition of Dutch peer NXP Semiconductors NV, a day after the White House said China would reconsider clearing a deal if it was attempted again.
- Nexstar Media Group said on Monday it had agreed to buy Chicago-based peer Tribune Media Company for about \$4.1 billion in cash, a deal that would make it the largest regional US TV station operator.
- Sharp Corp has laid off more than 3,000 foreign workers in Japan as the Apple supplier shifts production of iPhone sensors to a Chinese plant owned by parent Foxconn, the Nikkei business daily reported.

TOP SELECTED NEWS

May's gov't faces contempt vote over Brexit legal advice

(Bloomberg) Theresa May's attempt to sell her Brexit deal to skeptical lawmakers was torpedoed before it had even begun, as opposition parties were granted an emergency debate on whether her government is in contempt of Parliament for refusing to release legal advice about her deal. May had expected to open five days of debate Tuesday just before 1 p.m. in London, with a speech arguing that her deal delivers on the 2016 vote to leave the EU without damaging Britain's trading relationship with the bloc. But minutes before Parliament was due to rise Monday evening, House of Commons Speaker John Bercow announced he agreed there was an "arguable case" that ministers were in contempt. The government had earlier said it wouldn't be complying with a Parliamentary demand that Attorney General Geoffrey Cox's full legal advice on May's Brexit deal be released. Bercow said this question would be the first order of business for Parliament to debate Tuesday, pushing back the start of May's debate until later in the day and meaning that her inability to get her way will have been vividly illustrated even before she stands up.

Qatar's exit show growing Sway of Moscow-Riyadh oil axis

(Bloomberg) When Qatar shocked the oil world on Monday by announcing plans to quit the OPEC cartel after 57 years, its energy minister said the decision was taken for "technical" reasons. That story didn't last long. A few hours later, a leading member of the country's ruling family used Twitter to blast the OPEC, a group where Qatar was once a diplomatic force despite being a relative minnow in oil production terms, accounting for less than 2% of total output. "The withdrawal of Qatar from OPEC is a wise decision, as this organization has become useless and does not bring us anything," said former prime minister Hamad bin Jassim bin Jaber Al Thani. "It is just being used for purposes that harm our national interest." His real target was Saudi Arabia, by the far the biggest producer inside OPEC. For decades the kingdom's power was cloaked in a desire for consensus that saw the group through wars, sanctions and revolutions. But the more aggressive foreign policy pursued since the rise to power of Crown Prince Mohammed bin Salman drove Qatar out. The prince's 2017 decision to isolate his Gulf neighbor politically and financially meant there was very little upside to Qatar remaining in the group. There's little expectation other countries will follow soon, but the kingdom's willingness to drive a fellow OPEC member toward the exit is more evidence the oil relationship that really matters is between Riyadh and Moscow.

WH seeks to end subsidies for electric cars, renewables

(Reuters) White House economic adviser Larry Kudlow said on Monday the Trump administration wants to end subsidies for electric cars and other items, including renewable energy sources. Asked about plans after General Motors Co (N:GM) announced U.S. plant closings and layoffs last week, Kudlow pointed to the \$2,500-to-\$7,500 tax credit for consumers who buy plug-in electric vehicles, including those made by GM, under federal law. "As a matter of our policy, we want to end all of those subsidies," Kudlow said. "And by the way, other subsidies that were imposed during the Obama administration, we are ending, whether it's for renewables and so forth." Asked about a timeline, he said: "It's just all going to end in the near future. I don't know whether it will end in 2020 or 2021." The tax

credits are capped by Congress at 200,000 vehicles per manufacturer, after which the subsidy phases out. GM has said it expects to hit the threshold by the end of 2018, which means under the current law, its tax credit scheme would end in 2020. Tesla Inc said in July it had hit the threshold. Other automakers may not hit the cap for several years. Experts say the White House cannot change the cap unilaterally. U.S. President Donald Trump last week threatened to eliminate subsidies for GM in retaliation for the company's decision. Kudlow made clear any changes in subsidies would not just affect GM. "I think legally you just can't," he said.

France and Germany aim to keep digital tax alive with new proposal: source

(Reuters) France and Germany sought on Monday to salvage a proposed EU tax on big digital firms by narrowing the focus to cover only companies' online advertising revenue, a European source said. The two countries will try to agree a text to put to other EU countries when finance ministers meet on Tuesday in Brussels to discuss a digital tax. In March, the European Union's executive arm proposed a 3 percent tax on big digital firms' online revenues accusing them of funneling profits through member states with the lowest tax rates to keep their overall tax down. While France has pushed hard for the digital levy, other countries such as Ireland, Denmark, Sweden and Finland have opposed it while Germany has also had some misgivings. "What matters for France is that there is a legally binding instrument that can be adopted as soon as possible," French Finance Minister Bruno Le Maire said as he arrived for talks with his euro zone counterparts on Monday.

Apple is said to miss rapid 5G takeoff, sitting out tech shift

(Bloomberg) Apple Inc. plans to hold off until at least 2020 before offering an iPhone that can connect to the next generation of high-speed phone services coming next year, according to people familiar with its plans. The delay may make it easier for rivals like Samsung Electronics Co. to win over consumers to phones that connect to 5G networks, which will provide a leap forward in mobile data speeds when they are introduced in 2019. As with 3G and 4G, the two previous generations of mobile technology, Apple will wait as long as a year after the initial deployment of the new networks before its main product gets the capability to access them, said the people, who asked not to be identified discussing the company's plans. Apple's previous calculations -- proven correct -- were that the new networks and the first versions of rival smartphones would come with problems such as spotty coverage, making consumers less compelled to immediately make the jump. This time, 5G boosters argue the switch is a much bigger speed upgrade, making Apple's decision to wait riskier. The networks will open the floodgates to new types of mobile computing, 5G advocates say.

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